LISBON SCHOOL OF ECONOMICS & MANAGEMENT
UNIVERSIDADE DE LISBOA

MASTER OF SCIENCE IN FINANCE

MASTERS FINAL WORK

PROJECT

EQUITY RESEARCH: PVH CORP

CAROLINA SILVA

OCTOBER 2019

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SUPERVISOR:

VICTOR MAURÍLIO SILVA BARROS

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Abstract

The purpose of this dissertation is to determine PVH, Corp. equity value at the end of 2019. The main motivation behind picking PVH, Corp. was the insights and expertise gain in the Fashion Luxury Apparel Industry throughout a group work performed in the curricular unit of Equity Research. This experience allowed me to better understand the dynamics, the competition and the risks in which PVH operates.

This report follows the research report format recommended by the CFA Institute.

It was performed a detailed analysis on the company financials and industry sector followed by a DCF and Multiples Valuation. The DCF resulted in a share price of $104.30, that represents a upside potential of 18.90% when compared to the current price of $87.72. The multiples valuation resulted in a share price of $98.89, 12.73% above the current price.

An extensive Sensitivity Analysis was also performed to access the impact of multiple variables, and the result point to a Price Target rounding $114.62. This value represents an upside potential of 30.67%, when compared to the current price.

To complement the sensitivity analysis, a Monte Carlo Simulation was also performed to better access the impact caused by the Terminal WACC and Terminal Growth Rate on Price Target. Results showed a mean Price Target of $111.93, representing an Upside Potential of 27.60%, which is near the price target computed by the DCF valuation. The probability of a BUY recommendation is close to 85%.

Thus, the outcome of this dissertation is a Buy Recommendation.

JEL Classification: G10; G17; G18; G32; G34; J11

Resumo

O objetivo desta dissertação é calcular o valor do capital próprio da empresa PVH, Corp. no final do ano de 2019. A principal razão de ter escolhido esta empresa foi o conhecimento prévio sobre a indústria de moda e vestuário de luxo adquirido através de um trabalho de grupo, durante a unidade curricular de Equity Research. Esta experiencia permitiu compreender melhor a dinâmica da indústria, a dinâmica entre concorrentes e os riscos a que a empresa esta exposta.

Este relatório segue o formato recomendado pelo CFA Institute.

Foi realizada uma análise detalhada à situação financeira da empresa e à indústria onde esta está inserida, seguidas de uma avaliação FCD e por Múltiplos. A avaliação segundo os FCD resultou num preço por acção de $104.30, que representa um ganho de 18.90%, quando comparada com o preço corrente de $87.72.

A avaliação por múltiplos resultou num preço de $98.89, 12.73% acima do preço corrente.

Foi realizada uma extensa Análise de Sensibilidade de modo a compreender os impactos de múltiplas variáveis no preço final da acção, e os resultados indicam que este será à volta de $114.62. Este valor representa um ganho de 30.67%, quando comparado com o preço corrente.

Para complementar a Análise de Sensibilidade, foram feitas simulações Monte Carlo para melhor compreender o impacto causado pelo WACC Terminal e pela Taxa de Crescimento no valor da acção. Os resultados apontam para um preço médio por acção de $111.93, representando um ganho de 27.60%, suportando o resultado da avaliação dos FCD. A probabilidade de uma recomendação de compra de acções ronda os 85%.

A conclusão desta dissertação é portanto o aconselhamento à compra de ações da empresa.

Classificação JEL: G10; G17; G18; G32; G34; J11

Acknowledgements

Firstly, I would like to express my gratitude to my supervisor, Dr. Victor Barros, for his guidance, support and commitment, that helped me to perform a better work.

Secondly, I would like to thank to my friends and colleagues, who always supported and motivated me throughout this journey.

Finally, but most importantly, I want to thank my mother for the unconditional support day by day, comprehension and motivation during this project.

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LISBON SCHOOL OF ECONOMICS & MANAGEMENT
UNIVERSIDADE DE LISBOA

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Master in Finance

PVH Corp.

New York Stock Exchange

BUY

RECOMMENDATION

TICKER:	CURRENT PRICE:	TARGET PRICE:	INDUSTRY:	MOODY'S RATING:	RISK:	RECOMMENDATION:
PVH	$87.72	$104.30	Fashion Luxury	Ba1	Medium Risk	BUY
Reuters	Oct 13, 2019	Dec 31, 2019	Apparel	Feb 3, 2019	Oct 13, 2019	18.90% upside

1. Research Snapshot

BUY is my recommendation for PVH, with a price target of $104.30 at 2019YE, using the DCF method. This offers a potential 18.90% upside gain from its latest closing price of $87.72 although with medium risk. Relative valuation through multiples supports the view that PVH is currently undervalued, with a price target of $98.89 at 2019YE (Table 1.2).

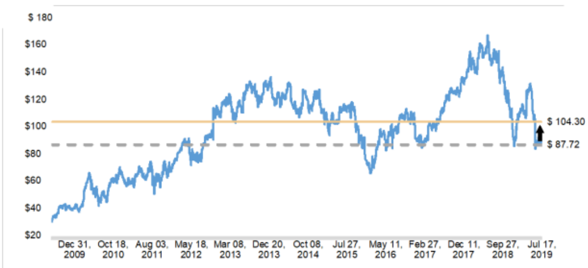


Table 1.1: Market Profile.

Closing Price	$	87.72
52 Week Range		67.41 - 134.24
Volume		1,197,254
Market Capitalization (in millions)	$	6,504.00
52-Week Change		-33.80%
52 Week High	$	134.24
52 Week Low	$	67.41
50-Day Moving Average	$	84.10
Shares Outstanding (in millions)		74,910
Free Float	$	73,550
Dividend Yield		0.18%

Source: The Author

Table 1.2: Valuation Summary.

DCF Valuation		
Enterprise Value	$	13,098,281.34
Target Price	$	104.30
Upside Potential		18.90%
Multiples Valuation		
EV/EBIT	$	89.12
EV/REVENUE	$	99.25
P/E	$	81.02
P/Sales	$	126.16
Multiples Average	$	98.89
Upside Potential		12.73%

Source: Yahoo Finance

China: The significant increase in aggregated income allowed the Chinese middle class to use their new spending power to express their personal tastes throughout fashion. Besides having been for many years the "factory of the world", it is now the world's fasted-growing market, accounting for more than 18% of all final goods consumed (MGFI).

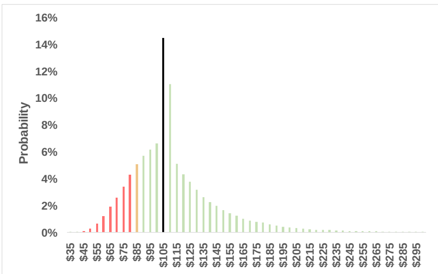
India: The country's expected CAGR of 8% between 2019-2022, combined with the expected expansion of the middle class at 19.4% a year, and the expected rise in aggregated income, will make India's fashion luxury apparel market the sixth-largest in the world (MGFI).

Trade Tensions: As PVH operates globally, a substantial portion of its products is imported from various countries. The rising tariff barriers in some of these countries, mainly the U.S. and China, impacts the company's costs and decreases the ability to respond quickly to changes in trends.

Millennials: Younger generations are a challenge to companies, as they crave the new and the authentic; demand the use of digital technology and social media presence; and are increasingly concern about social and environmental causes, favoring brands that are aligned with their values and avoiding those that don't.

Online Sales: The online channel represents 10% of today's luxury market value, and it's expected to continue cannibalizing physical store sales as reaches 25% by 2025.

Fig.1.1: Monte Carlo Simmulation.



Source: The Author

2. Business Description

GENERAL PVH Corp is one of the world's largest apparel companies with revenues of $9.7 billion in 2018YE, 8,3% higher than the previous year (Fig.2.1). The company operates three business groups - Calvin Klein, Tommy Hilfiger and Heritage Brands. The company has over 38,000 associates spread over 40 countries designing and sourcing hundreds of different products.

PVH operates a diversified portfolio of iconic lifestyle luxury apparel brands led by *CALVIN KLEIN* and *TOMMY HILFIGER*, which represent approximately 84% of the revenues (Fig.2.2) and 92% of EBIT (Fig.2.3).

The Heritage Brands include both national and international recognized trademarks, including Van Heusen, IZOD, Bass, ARROW and Eagle, which are owned brands; and Geoffrey Beene, Kenneth Cole New York, Kenneth Cole Reaction, Sean John, JOE Joseph Abboud, MICHAEL Michael Kors, Michael Kors Collection, Chaps, Donald J. Trump Signature Collection, DKNY, Elie Tahari, Nautica, Ted Baker, J. Garcia, Claiborne, Robert Graham, U.S. POLO ASSN., Ike Behar, Axcess, Jones New York and John Varvatos, which are licensed, as well as other licensed and private label brands.

The company generates net sales from the design, market and wholesale distribution to retailers, franchisees, licensees and distributors of branded dress shirts, neckwear, jeanswear, sportswear, performance apparel, underwear, intimate apparel, swimwear, swim products, handbags, accessories, footwear and other related products. The brand is positioned to sell at various price points and in multiple channels of distribution and regions. This enables PVH to offer products to a broad range of consumers, while minimizing competition among their brands and reducing their reliance on any one demographic group, merchandise preference, price point, distribution channel or region. The company also license their brands to third parties and joint ventures for product categories and regions. Additionally, PVH generates royalty, advertising and other revenue from fees for licensing the use of their trademarks.

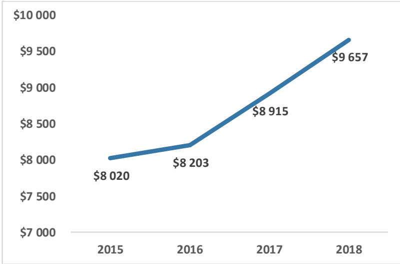
PVH's operations have also evolved from a regional perspective, since in the early 2000's the business was primarily based in North America, and currently PVH operates significant businesses in Europe, Asia Pacific and Latin America (Fig.2.4), and over 50% of revenues and approximately 70% of EBIT on a non-GAAP basis are generated outside of the U.S. (Fig.2.5, 2.6).

The most important driver of PVH's profitability is high margins. Luxury fashion costumers have low sensibility to price changes and value quality, which enables PVH to increase the final price and consequently increase margins and profits.

Another important driver of profitability is costs. The majority of the company's costs are variable, which means that it increases with the increase of sales, but also decreases whenever the company struggles to sell. Other profitability driver is customer retention and costumer referral. PVH has been able to retain their oldest clients and use them to spread influences and trends.

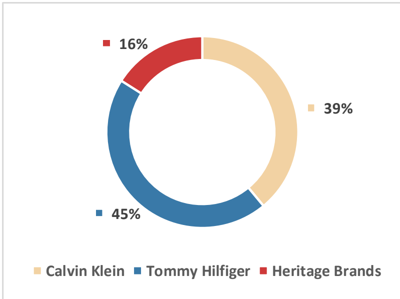
The macroeconomics' drivers of profitability are the increase in population and the increase in aggregated income in Asia Pacific.

Fig.2.2: PVH Revenue from 2015-2018.



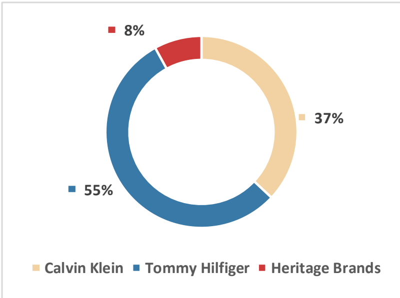
Source: the Author

Fig.2.5: PVH 2018 Revenue By Business.



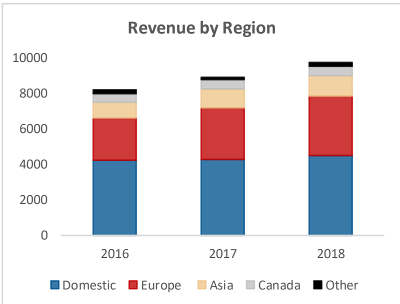
Source: the Author

Fig.2.8: PVH 2018 EBIT By Business.



Source: the Author

Fig.2.11: PVH Revenue By Region 2016-2018.



Source: the Author

History

The company started 138 years ago, in 1881 when Moses Phillips brought his family to America and started to sell shirts to coal miners in Pottsville Pennsylvania, where he and his four sons were given the opportunity to merge with another shirt company - *D. Jones & Sons* and build the business significantly, under the new name *Phillips-Jones*.

In 1919 the company bought the rights to sell (in North and South America) an innovative soft collar design invented by John Van Heusen which was a huge success and allowed the company to become the greatest maker of dress shirts in America by 1920, year in which it became publicly and changed his name to PVH.

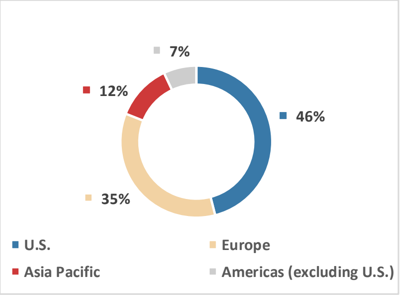
Since the beginning that the company's strategy was to adapt to the market, acquire to grow, invest in brands and be a good partner. PVH put these strategies in practice over the years: in 1982 the company launches Geoffrey Beene shirts, in 1987 acquires G.H. Bass & Co. and in 2002 acquires the worldwide rights to the Van Heusen label, all top selling brands.

In 2003, PVH acquired Calvin Klein for $400 million in cash, plus another $30 million in stock and up to $300 million in royalties, linked to revenues over the next 15 years. This greatly expanded PVH's growth potential both domestically and internationally. The deal included the design house and a series of CK licenses, including jeans, sheets, eyeglasses and perfume, as well as a non-expiring license for CK underwear, owned by Warnaco. CK Inc was a luxury apparel firm led by the famous stylist Calvin Klein and his partner Barry Schwartz. Although the CK name is one of the world's most recognizable brand names, the firm had been on an unstable path, with huge successful collections, some costly failures and large accumulation of debt. Overall, CK was a stylish success with poor management. The acquisition brought to CK the financial resources to further expand his name in Asia and Europe, as well as more free time to the designer to concentrate in the creation process instead of production and bookkeeping. PVH plans were to introduce a new CK men's sportswear line, to compete with the more moderately priced Lauren line by Ralph Lauren, and with the Jones New York labels. PVH intention was to use CK and a growth vehicle.

In 2004, PVH expanded its license agreements to include MICHAEL Michael Kors, Sean John. and ARROW. In 2007, PVH acquired the business of Superba, Inc., the world's largest provider of men's neckwear, that includes the licenses for brands as DKNY, Nautica, Perry Ellis, Ted Baker, JOE Joseph Abboud, Original Penguin, Jones New York.

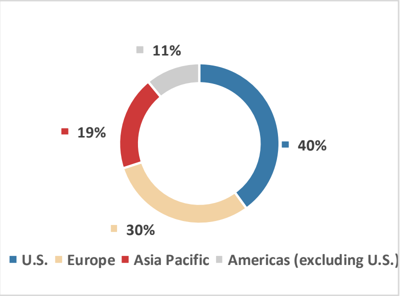
In 2010, PVH acquired TOMMY HILFIGER, one of the world's leading premium lifestyle brands, for $3 billion, $2.5 billion in cash and $7.9 million in shares plus the assumption of $100 million in liabilities. This was a unique opportunity to bring together two premier companies, each with iconic brands, which would deliver enhanced opportunities for stockholders, business partners, customers and employees, being the biggest source of revenue through the years. TH was facing difficult times by the late 1990's, because customers tastes changed and the brand was considered unfashionable. The company eventually sold itself in 2006 to Apax and European management, led by Mr. Gehring, for about $1.6 billion in cash. Under Apax and Mr. Gehring, the company experienced a big recovery. Selling the company in 2010 served a cash-out solution for Apax partners, that still owns 15% of the brand. The PVH's motivation was to take advantage of a strong brand, of high profits and of TH's strong European distribution channels as a platform for its own products. Also TH was already focused on international growth and already had licenses conceded do PVH to sell their clothing products. PVH at the time was under-levered, being able to take about $2.5 billion in debt. PVH financed the cash portion of the deal and refinanced $300 million worth of bonds with a combination of $385 million of cash on hand, $2.45 billion of bank loans (including an undrawn $450 million revolver) and $600 million of senior unsecured bonds. The company also issued $200 million of perpetual convertible preferred notes issued to LNK Partners and MSD Capital that convert at $47.74 a share with no coupon or

Fig.2.14**:** PVH 2018 Revenue By Region.



Source: the Author

Fig.2.17**:** PVH 2018 EBIT By Region.



Source: the Author

liquidation preference. PVH also issued $200 million of new shares before the deal closed.

In 2013, PVH acquired The Warnaco Group, Inc., that was for many years their largest licensee for CK products. By reuniting the CK brand under one owner, PVH had complete direct global control of the brand image and commercial decisions for the two largest CK apparel categories - jeans and underwear, being able to better coordinate product design, merchandising, supply chain, retail distribution and marketing, which strengthened the brand's image, positioning and execution across all markets. Warnaco's operations in Asia and Latin America enhanced PVH's opportunities in these high-growth regions, as well as the ability to leverage their expertise and infrastructure in North America and Europe. The acquisition also brought the Speedo, Warner's and Olga brands into the Heritage Brands portfolio.

Also that year, the company sold its G.H. Bass & Co. Business to G-III Apparel Group, in an effort to narrow its focus on its lifestyle apparel businesses.

In 2015, PVH entered in a joint venture with Gazal Corporation Limited, which enhance the rights to market and distribute: certain CK products in Australia, New TM, Van Heusen and certain branded menswear and shapewear products in Australia and New Zealand.

In 2016, PVH completed its acquisition of the 55% stake in the Tommy Hilfiger joint venture in China that it did not already own. In the next year, PVH acquires True & Co., a Silicon Valley direct-to-consumer intimate apparel e-commerce retailer.

Business Groups

PVH has three main business groups: Calvin Klein, Tommy Hilfiger and Heritage Brands. Both the CK and the TH business groups are segmented by region into North America (U.S., Canada and Mexico) and International (Europe, including the Middle East and Africa; Asia Pacific, including Australia and New Zeland; and Latin America, including South America, Central America and the Caribbean).

Almost half of the CK 2018YE revenues were generated outside North America, significantly in Europe and Asia Pacific (Fig.2.7). Although EBIT margins have been decreasing for the past years (Fig.2.8), total revenue growth has been positive (Fig.2.9).

More than half of the TH 2018YE revenues were generated outsider North America, with Europe generating 43% of revenues (Fig.2.10). Total revenue and EBIT margin growth has been positive for the past years (Fig.2.11, Fig.2.12).

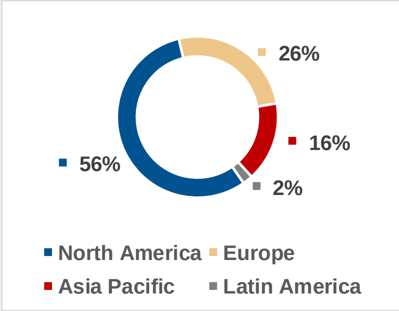
The Heritage Brands only represented 16.8% of revenues and 8% of EBIT in 2018YE. HB revenues have been slowly increasing since 2016, after a sharp decrease (Fig.2.13).

Strategies

Global Strategies:

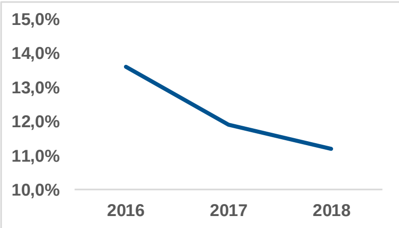
1. Drive consumer engagement by investing in brand, product, channel, and in-store and online experiences.
2. Expand CALVIN KLEIN's and TOMMY HILFIGER's worldwide reach and extend direct control over various licensed businesses.
3. Invest in and evolve the operating platforms through their systems, consumer data, speed to market, digitalization, supply chain initiatives and centers of excellence.

Fig.2.20: Calvin Klein 2018 Revenues By Region.



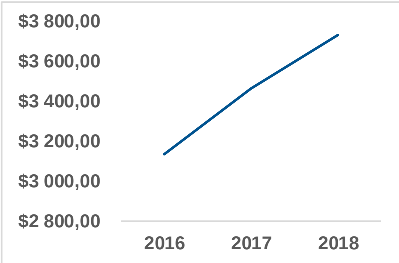
Source: the Author

Fig.2.23: Calvin Klein EBIT Margin Growth.



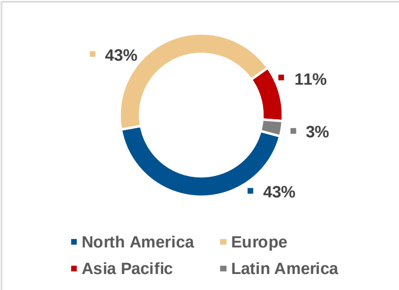
Source: the Author

Fig.2.26: Calvin Klein Revenue Growth.



Source: the Author

Fig.2.29: Tommy Hilfiger 2018 Revenue by Region.



Source: the Author

4. Develop a talented and skilled organization that embodies the company's core values by attracting and retaining talent through associate engagement and career growth opportunities, while providing an inclusive workplace where every individual is valued.
5. Generate free cash flow by accelerating topline growth and focusing on margin and working capital opportunities, while seeking to maximize returns.

Calvin Klein Strategies:

1. Be consumer-centric and enhance global relevance through marketing campaigns and consumer engagement initiatives designed to drive growth and further resonate with youth-minded consumers.
2. Drive product improvement and expansion, particularly within apparel, jeans, accessories and women's intimates.
3. Develop compelling digital experiences, while also growing their presence in specialty stores and opening additional travel retail locations.
4. Gain greater control of the brand by taking back licensed businesses to operate them directly.
5. Sharpen their processes by enhancing data capabilities.

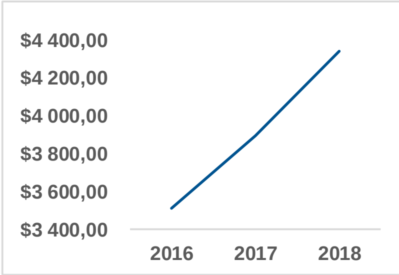
Tommy Hilfiger strategies:

1. Be consumer-centric and enhance global brand relevance with marketing campaigns and consumer engagement initiatives designed to drive growth and reflect TOMMY HILFIGER's accessible luxury positioning and classic American cool aesthetic.
2. Category expansion within womenswear and accessories, men's tailored clothing and underwear.
3. Drive regional expansion, particularly in Asia Pacific.
4. Digitize TOMMY HILFIGER from showrooms to stores and online experiences.
5. Evolve the supply chain to adapt more quickly to change.

Heritage Brands strategies:

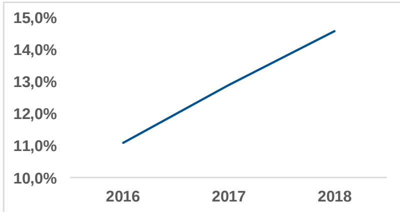
1. Be consumer-centric by designing and marketing quality, trend-right products that offer great value to consumers and introducing products with new technologies and new features.
2. Leverage and enhance each brand's position in the market.
3. Maximize distribution, through mass market retailers and digital commerce.
4. Enhance profitability by capitalizing on supply chain opportunities and leveraging consumer insights, while also reducing costs and maintaining a critical focus on inventory management.

Fig.2.32: Tommy Hilfiger Revenue Growth.



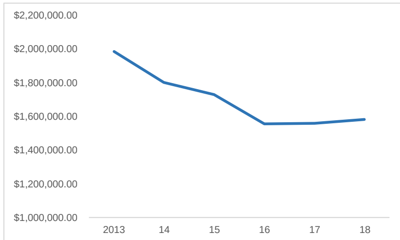
Source: the Author

Fig.2.35: Calvin Klein EBIT Margin Growth.



Source: the Author

Fig.2.38: Heritage Brands Revenues from 2013-2018



Source: the Author

Stockholder's Overview

The Stockholder Structure is divided into three main types of investors, the **Mutual Fund Holders** (type of financial vehicle made up of a pool of money collected from many investors to invest in securities such as stocks, bonds, money market instruments, and other assets), with 56% of the shares, the **Institutional Holders** (nonbank person or organization that trades securities in large enough share quantities or dollar amounts that it qualifies for preferential treatment and lower commissions), with 43% of the shares and **Individual Holders** with 1% of the shares (Fig.2.14).

During 2019 AprilQE, Institutional Investors and Mutual Funds purchased a net $1.2 million shares of PVH, and together now own 99% of the total shares outstanding. This greater stake is not typical for companies in the Apparel/Footwear industry, and may reflect the investors' expectations on PVH stock, seeing it as an important holding.

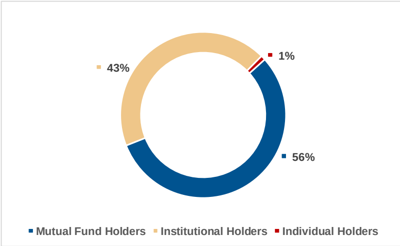
The Top 10 Mutual Funds together own 16,82% of PVH common stock (Table 2.1) and the Top 10 Institutional Owners owns 47,81% (Table 2.2).

PVH's Stock Ownership Guidelines require that non-employee directors, that served the board for more than 5 years, own shares of PVH common stock with an aggregate value equal to five times the annual cash retainer payable to directors. The CEO is also required to hold shares of PVH common stock with an aggregate value equal to six times his annual base salary. The other NEOs must hold PVH common stock with an aggregate value equal to three times their respective annual base salaries. In addition, Mr. Chirico must hold for one year the after-tax payouts of his PSU awards.

As of the date of the Proxy Statement, all of the Non-employee Directors, Mr. Chirico, and all of the NEOs are in compliance with the stock ownership guidelines.

This Shareholder Structure is suitable for this company, as the company has the power to monitor the share ownership at any given time, preventing hostile takeovers.

Fig.2.41: Stockholder structure by type of investor.



Source: Yahoo Finance

Table 2.1: Top 10 Mutual Funds Holding PVH Corp.

Mutual Fund	Stake
Vanguard Total Stock Market Index Fund	2,84%
Vanguard Mid Cap Index Fund	2,50%
Vanguard 500 Index Fund	2,25%
Franklin Mutual Ser. Fds. - Shares Fund	2%
JPMorgan Mid Cap Value Fund	1,93%
Vanguard Windsor Funds	1,18%
SPDR S&P 500 ETF	1,08%
Government Pension Fund - Global	1,06%
Fidelity Blue Chip Growth Fund	1,05%
Fidelity Series Equity Income Fund	0,93%

Source: Yahoo Finance

Table 2 3: Top 10 Institutional Owners of PVH Corp.

Top 10 Institutional Owners of PVH Corp	
Stockholder	**Stake**
The Vanguard Group, Inc.	10,72%
Fidelity Management & Research Co.	9,25%
JPMorgan Investment Management, Inc.	6,53%
SSgA Funds Management, Inc.	4,80%
BlackRock Fund Advisors	4,68%
Pzena Investment Management LLC	4,01%
Franklin Mutual Advisers LLC	2,87%
Dimensional Fund Advisors LP	1,85%
Renaissance Technologies LLC	1,58%
Geode Capital Management LLC	1,52%

Source: Yahoo Finance

3. Management and Corporate Governance

PVH follows their own **Code of Business Conduct and Ethics**, **Code of Ethics for the CEO and Senior Financial Executives** and **Corporate Governance Guidelines** (see appendix 6).

Board of Directors

PVH's Board of Directors is responsible for the management of risks related to the operation of the business. The Board also receives periodic reports from members of senior management on various aspects of risk, including the enterprise risk management program, business continuity planning and cybersecurity.

The Board of Directors is composed by the chairman Emanuel Chirico, who is also the CEO, and other 11 independent members. **Emanuel Chirico** has been with PVH for over 25 years, serving as CEO since 2006 and Chairman since 2007. He graduated from Fordham's Gabelli School of Business in 1979. Previously, he held a number of financial and operational positions within PVH, including President, COO and CFO. Prior to joining PVH, Chirico was a partner at the international accounting firm, Ernst & Young, running their retail and apparel practice group. Chirico is also on the board of directors at Dick's Sporting Goods.

The Board of Directors has four standing Committees, composed by the rest of the board members.

The standing **Audit & Risk Management Committee**, which is responsible for risk assessment and risk management, is composed by:

- The chairman **Juan R. Figuereo,** director since 2011, who has a strong background in finance and accounting and has extensive experience in the consumer goods and retail industries, including brand building and driving innovation. Mr. Figuereo has been a Venture Partner in Ocean Azul Partners since 2018. Previously, he was Executive Vice President and CFO of Revlon, Inc., of NII Holdings, Inc., of Newell Rubbermaid, Inc. and of Cott Corporation; and Vice President of Mergers & Acquisitions at Wal-Mart International.
- **V. James Marino**, director since 2007, has significant senior executive leadership experience in the consumer products industry; significant expertise on both a domestic and an international basis in areas including corporate strategy development and execution, brand building and multichannel distribution. Previously, he was President and CEO of Alberto-Culver Company.
- **Amy McPherson**, director since 2017, started her career in Marriott in 1986 and served roles of increasing responsibility, including Executive Vice President of Global Sales and Marketing, Senior Vice President of Business Transformation and Integration, and Vice President of Finance and Business Development. This background gave her considerable experience in overseeing business operations and development in Europe; in overseeing acquisitions and strategic partnerships and implementing and executing strategies on both a regional and global basis and in managing sales, customer care, sales channel strategy and analysis. Currently she is taking on a role as a principal investor and consultant to a children-focused media business.
- **Edward R. Rosenfeld**, director since 2014, has over 20 years of experience focused on the retail, apparel and footwear industries as both an executive and an investment banker. He started his career has an investment banker in a mergers and acquisitions (focused on the retail and apparel industries), but in 2005 joined Madden, serving in finance and strategic planning roles before becoming CEO in 2008.

The **standing Compensation Committee**, which is responsible for the alignment of the Executive Compensation Program and the Incentive Awards with stockholder value creation, corporate objectives, and their own Code of Business Conduct and Ethics, is composed by:

- The chairman **Judith Amanda Sourry Knox**, director since 2016, who has extensive global marketing and business experience in consumer product goods and consumer development. Ms. Sourry has spent almost her entire career — over 30 years — in roles of increasing responsibility and prestige at Unilever, including President of Global Foods Category, Executive Vice President of Global Haircare, Executive Vice President of U.K. and Ireland, Head of Global Customer Development and she is actively involved in Unilever's global diversity, gender balance and sustainable living initiatives.
- **Henry Nasella**, director since 2003, has significant management experience (gained in senior executive positions in publicly traded retail companies and as a partner in private equity firms) and significant experience serving on boards of directors and board committees of several retail companies. He has the first President of Staples, building the company from startup into a global leader; he led the successful buyout of Star Markets, and served as Chairman and CEO of the company until it was sold to Sainsbury Plc., he was Venture Partner at Apax Partners, where he was a senior member of the U.S. Consumer and Retail Group and in 2005 he co-founded the firm, and has been a partner ever since.

- **Craig Rydin**, director since 2006, has significant management and leadership experience (which he gained in over 30 years in various executive positions in the consumer products and retail industry) and has extensive experience serving on the audit and compensation committees of several public and private company boards of directors. He held positions of increasing responsability at Campbell Soup Company (including management and marketing), and at Yankee Holding Corp. and Tankee Candle Company (including Chairman). Mr. Rydin has been an operating partner at LNK Partners since 2014.

The **standing Nominating, Governance & Management Development Committee**, which is responsible for risks related to governance issues, is composed by:

- The chairman **Joseph B. Fuller**, director since 1991, who has extensive experience advising management with respect to strategy, corporate finance, governance and marketing. Earlier he was Founder, Director and Vice-Chairman of Monitor Company LP for 30 years. He is a professor at Harvard Business School, is a Visiting Fellow at the American Enterprise Institute and founded Joseph Fuller LLC (a business consulting firm) in 2013.
- The Committee is also composed by **Judith Amanda Sourry Knox**, **Henry Nasella** and **Craig Rydin.**

The standing **Corporate Responsibility Committee**, which is responsible for advising the Board and management with respect to potential risks to PVH's reputation and our role as a socially responsible organization, is composed by:

- The chairman **Geraldine McIntyre,** director since 2015, who has extensive management experience gained through operating consumer packaged goods businesses in multiple channels and across multiple geographies. She has led sales, marketing and operations teams in Europe, Africa, Japan and the U.S. She has a background in consumer insights, brand building and digital commerce gained through her employment with Coca-Cola (11 years in positions of escalating responsibility in managment and marketing thoughout the world), Newell Brands (as President and Group President) and Sunrise Senior Living (CEO).
- **Brent Callinicos,** director since 2014, has extensive experience working in treasury, financial and accounting roles in public companies and working with public company boards. He was Vice President, Treasurer and CAO of Google Inc.; Advisor and CFO at Uber Technologies; and CO and CFO of Virgin Hyperloop One.
- **Mary Baglivo**, director since 2007, brings to the Board valuable marketing, advertising and strategic planning expertise along with general management know-how. She has extensive experience building high-performing brands via creative integrated programs and has led digital transformations for brand and agency organizations. Her clients have included leading global companies in consumer package goods, healthcare, retail, hospitality, spirits and financial services. She had an extensive career in major advertising agencies, including serving as Chairman & CEO of The Americas, and as CEO at Saatchi & Saatchi. She was also CMO and Vice President of Global Marketing at Northwestern University and was Vice Chancellor of Communications and Marketing at Rutgers University. Ms. Baglivo founded The Baglivo Group (a brand strategy advisory consultancy) in July 2018.

This Governance structure provides: **independence**, because all non-employee directors and all members of the Board's standing committees are independent; **accountability**, because directors are elected annually by a majority vote and incentive compensation for executives is subject to our Clawback Policy; and **Alignment with Stockholder Interests**, because executive compensation program emphasizes pay for performance.

The Governance structure is suitable because it is always necessary to have the consent of a majority of the voting members of the board, which prevents a member to act on his own interest, protecting shareholders.

Executive Officers

Michael A. Shaffer, Executive Vice President and Chief Operating & Financial Officer, PVH Corp, has been in the company for over 25 years and played an important role in the acquisitions of Tommy Hilfiger (2010) and Warnaco (2013). He held several positions in the wholesale and retail divisions of PVH, including Director of Accounting Operations, Vice President and Controller, Senior Vice President of Retail Operations, Executive Vice President of Finance, Executive Vice President and CFO, which translates to years of diverse financial management and executive leadership experience in the apparel and financial industry. Mr. Shaffer has been on the Board of Directors at Build-A-Bear Workshop, Inc. since May 2014. He graduated from George Washington University with a bachelor's degree in accounting and is a Certified Public Accountant.

Francis K. Duane, Vice Chairman, PVH Corp and Chief Executive Officer, Heritage Brands, joined PVH in 1998 as Division President, Izod Wholesale, before being appointed CEO of Wholesale Sportswear and

North America Wholesale. Prior to joining PVH, he served as Worldwide President of Guess Inc., and held senior positions at Nautica, Inc., Hugo Boss and Burberry. Mr. Duane is on the Board of Governors at GS1 US, and previously served on the Board of Directors of Ariat. Mr. Duane has a bachelor in Finance and Marketing and received an Honorary Doctorate degree in 2016, from Merrimack College.

Daniel Grieder, Chiel Executive Officer, Tommy Hilfiger Global and PVH Europe, has over 30 years of international experience as managing director, founder, president and CEO of several European companies. Mr. Grieder joined PVH in 2004, and has assumed the roles of COO Tommy Hilfiger Europe and CEO Tommy Hilfiger Europe, before combining the roles of CEO PVH Europe (overseeing PVH's businesses for both Tommy Hilfiger and Calvin Klein in Europe) and CEO Tommy Hilfiger Global, since 2014. Mr. Grieder graduated from HWV Business School in Zürich.

Cheryl Abel-Hodges, Chief Executive Officer of Calvin Klein, assumed her role in June 2019. Previously, she was Group President of the CK North America and the Underwear Group; managed underwear businesses conducted under the CALVIN KLEIN, TOMMY HILFIGER, Warner's, Olga and True&Co. brands, overseeing design, merchandising, product development and planning; played an integral role in PVH's acquisition of True&Co., the company's partnerships with Amazon Fashion and Nike Inc., and held several senior leadership roles within the company, including President of Wholesale Sportswear for IZOD and President of CK Underwear. Earlier in her career, Cheryl held management, sales and marketing positions with Ralph Lauren Corp., Liz Claiborne Inc., Bernard Chaus, Carole Little, and May Co. Cheryl graduated from S.U.N.Y. Albany with a bachelor of arts in political science and English.

Table 3.1: Board of Directors composition, position, cash remuneration, stock awards and total remuneration of the2018 fiscal year.

Board of Directors	Position	Cash Remuneration	Stock Awards	Total Remuneration
Emanuel Chirico	Chairman	$ -	$ -	$ -
Mary Baglivo	Corporate Responsibility Committee	$ 102 500,00	$ 145 136,00	$ 247 636,00
Brent Callinicos	Corporate Responsibility Committee	$ 95 000,00	$ 145 136,00	$ 240 136,00
Juan R. Figuereo	Chairman Audit & Risk Management Committee	$ 125 000,00	$ 145 136,00	$ 270 136,00
Joseph B. Fuller	Chairman Nominating, Governance & Management Development Committee	$ 110 000,00	$ 145 136,00	$ 255 136,00
Judith Amanda Sourry Knox	Chairman Compensation Committee; Nominating, Governance & Management Development Committee	$ 105 000,00	$ 145 136,00	$ 250 136,00
V. James Marino	Audit & Risk Management Committee	$ 105 000,00	$ 145 136,00	$ 250 136,00
Geraldine McIntyre	Chairman Corporate Responsibility Committee	$ 110 000,00	$ 145 136,00	$ 255 136,00
Amy McPherson	Audit & Risk Management Committee	$ 105 000,00	$ 145 136,00	$ 250 136,00
Henry Nasella	Director; Compensation Committee; Nominating, Governance & Management Development Committee	$ 160 000,00	$ 145 136,00	$ 305 136,00
Edward Rosenfeld	Audit & Risk Management Committee	$ 105 000,00	$ 145 136,00	$ 250 136,00
Craig Rydin	Compensation Committee; Nominating, Governance & Management Development Committee	$ 110 000,00	$ 145 136,00	$ 255 136,00

Source: Company data

Table 3 2: Executive Officers composition, position and total remuneration of the 2018 fiscal year.

Executive Officers	Position	Total Remuneration
Emanuel Chirico	Chairman and Chief Executive Officer, PVH Corp.	$ 17 065 604,00
Michael A. Shaffer	Executive Vice President and Chief Operating & Financial Officer, PVH Corp.	$ 4 909 297,00
Francis K. Duane	Vice Chairman, PVH Corp. and Chief Executive Officer, Heritage Brands	$ 6 872 385,00
Daniel Grieder	Chief Executive Officer, Tommy Hilfiger Global and PVH Europe	$ 4 676 440,00
Cheryl Abel-Hodges	Chief Executive Officer, Calvin Klein	$ -

Source: Company data

4. World Economic Outlook

According with IMF World Economic Outlook (2019), global growth, which peaked at close to 4% in 2017, softened to 3.6% in 2018 (Fig.4.1), and is projected to decline further to 3.3% in 2019 and then picking up to 3.6% in 2020 (Fig.4.2).

The decline in global growth is due to the intensification of U.S.-China trade tensions, that threat global technology supply chains; the continuing uncertainty surrounding Brexit; and to the rising geopolitical tensions that roiled energy prices. GDP releases so far this year, together with generally softening inflation, point to weaker-than-anticipated global activity. Investment and demand for consumer durables have been subdued across all economies as firms and households continue to hold back on long-term spending. Accordingly, global trade, which is intensive in machinery and consumer durables, remains sluggish.

The projected pickup in global growth in 2020 is precarious and relies importantly on several factors: financial market sentiment staying generally supportive; continued fading of temporary drags, notably in the euro area; stabilization in some stressed emerging economies, such as Argentina and Turkey; and avoiding even sharper collapses in others, such as Iran and Venezuela.

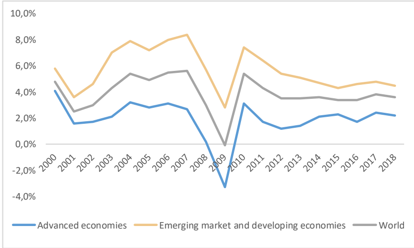
For advanced economies, growth is projected at 1.9% in 2019 and 1.7% in 2020 (Fig.4.4).

- United States: growth is projected at 2.6% in 2019, moderating to 1.9% in 2020 as the fiscal stimulus unwinds. The robust exports and inventory accumulation are offset by a softer domestic demand and imports, in part reflecting the effect of tariffs, leading to a slowing momentum.
- Euro Area: growth is projected at 1.3% in 2019 and 1.6% in 2020. Germany faces weaker external demand, which also weighs on investment; in France fiscal measures are expected to support growth and the negative effects of street protests are dissipating; Italy faces uncertain fiscal outlook and weak domestic demand and by contrast Spain presents strong investment and weak imports.
- United Kingdom: growth is projected at 1.3% in 2019 and 1.4% in 2020, due to high uncertainty related to Brexit.
- Japan: growth is projected at 0.9% in 2019 supported by inventory accumulation and a large contribution from net exports due to the sharp fall in imports, thus masking subdued underlying momentum. Growth is projected to decline further to 0.4% in 2020.

The emerging market and developing economy group is expected to grow at 4.1% in 2019, rising to 4.7% in 2020, reflecting downward revisions in all major regions (Fig.4.5).

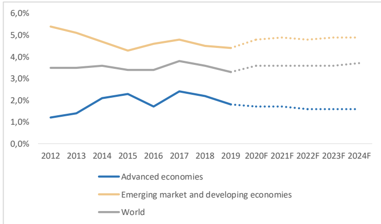
- Emerging and developing Asia: growth is projected to soften to 6.2% in 2019–20, largely reflecting the impact of tariffs on trade and investment. China's growth is forecast to soften to 6.2% in 2019 and to 6% in 2020, because of the negative effects of escalating tariffs and weakening external demand have added pressure to an economy already in slowdown. India's economy is also set to grow more slowly, reaching 7% in 2019 and 7.2% in 2020, due to a weak outlook for domestic demand (Fig.4.6).
- Emerging and developing Europe: region is expected to grow at 1% in 2019 and 2,3% in 2020. The subdued outlook largely reflects the projected growth slowdown in Turkey.

Fig.4.1: GDP Annual Growth from 2000 to 2018.



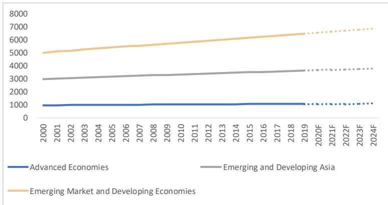
Source: IMF 2019.

Fig.4.2: GDP Annual Growth and Forecast for the World, Advanced and Developing Economies from 2012 to 2024.



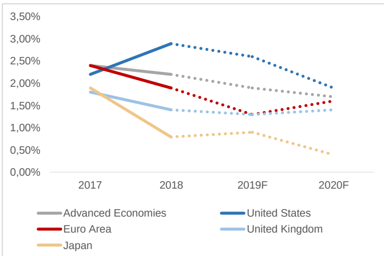
Source: IMF 2019.

Fig.4.3: Population, in millions, from 2020 to 2024.



Source: IMF 2019.

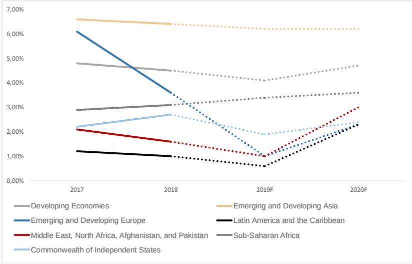
Fig.4.4: GDP Annual Growth and Forecast for the Advanced Economies from 2017 to 2020.



Source: IMF 2019.

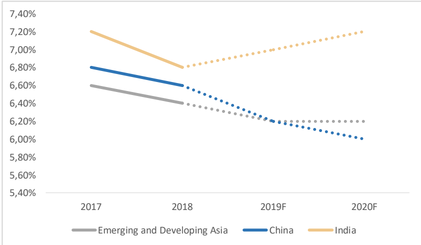
- Latin America: expected to grow at 0.6% in 2019, recovering to 2.3% in 2020. The slow growth reflects Brazil's weak sentiment and high uncertainty; Mexico's weak investment, slow private consumption, policy uncertainty, weakening confidence and rising borrowing costs; the humanitarian crisis and economic implosion in Venezuela; and the slow growth projected to Argentina and Chile.
- Middle East, North Africa, Afghanistan, and Pakistan region: growth is expected to be 1.0% in 2019, rising to about 3% in 2020. The difficult outlook for the region is largely due to the tighter US sanctions on Iran and civil strifes on Syria and Yemen. Partially offsetting these developments are improved prospects for Saudi Arabia's economy—the non-oil sector is expected to strengthen in 2019 with higher government spending and improved confidence, and in 2020 with an increase in oil sector growth.
- Sub-Saharan Africa: growth is expected at 3.4% in 2019 and 3.6% in 2020. Higher and volatile oil prices have supported the outlook for Angola, Nigeria, and other oil-exporting countries. But growth in South Africa is expected at a more subdued pace, reflecting a of strike activity and energy supply issues in mining and weak agricultural production.
- Commonwealth of Independent States: is projected to grow slowly at 1.9% in 2019 and at 2.4% in 2020, due to a downgrade to Russia's Outlook.

Fig.4.5: GDP Annual Growth and Forecast for the Developing Economies from 2017 to 2020.



Source: IMF 2019.

Fig.4.6: GDP Annual Growth and Forecast for the Emerging and Developing Asia from 2017 to 2020.



Source: IMF 2019.

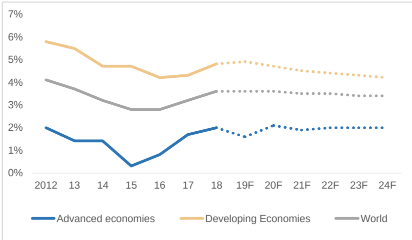
Inflation

Inflation is projected to remain broadly at current levels for the advanced economy group, while for the emerging market and developing economy group, it is set to resume its steady decline of the past decade (Fig.4.7).

Consistent with the softer outlook for commodity prices and the expected moderation in growth, inflation is expected to decline to from 2% to 1.6% this year in advanced economies. With the US economy operating above potential this year and next, core inflation is expected to exceed the medium-term target of 2%, and decline to target thereafter. In the euro area, core inflation is expected to gradually increase from 1.2% in 2018 to about 2% in 2022 as the economy is operating above potential. Japan's core inflation rate (excluding fresh food and energy) is projected to rise to 1.4% by the end of 2020, softening back to about 1.3% in the medium term (Fig.4.8).

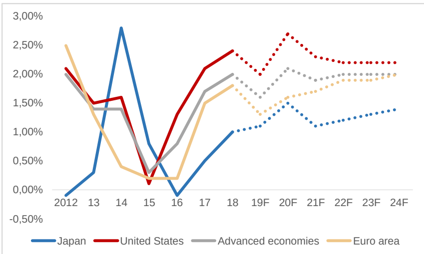
Inflation in emerging market and developing economies is stable across most regions and is expected to rise from 4.8% to 4.9% this year, reflecting developments in a few economies. As they fade, and growth stabilizes across the emerging market and developing economy group, inflation is set to moderate to about 4% over the medium term.

Fig.4.7: Inflation Rate, Average Consumer Prices (Annual percent change), for the World, Advanced and Developing Economies, from 2012 to 2024.



Source: IMF 2019.

Fig.4.8: Inflation Rate, Average Consumer Prices (Annual percent change), for the Advanced Economies of Japan, U.S. and Euro area, from 2012 to 2024.

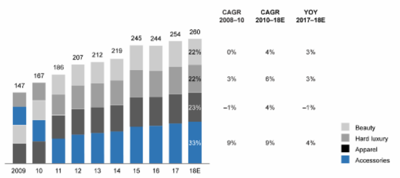


Source: IMF 2019.

5. Luxury Fashion, The Industry

Luxury Fashion can be defined as an industry where products are used for self-grooming purposes such as apparels, shoes, hard luxury, beauty products and jewelry. The segment accounted for 23% of the Luxury Goods Market in 2018, with a worldwide total revenue of $61 billion in 2018YE and it is expected to increase to $80 billion by 2023YE (Fig.5.1). It's an industry characterized by polarization, with the top 20 companies in the industry accounting for 97% of economic profit, while an increasing proportion of publicly-traded fashion companies struggle to create any economic value (Fig.5.2; 5.3).

Fig.5.1: Share of global personal luxury goods market, by category (€ billions).

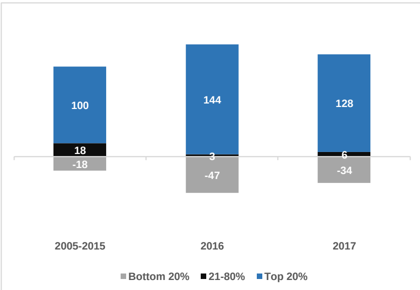


Source: Bain & Company

This industry has been facing several changes in the past decades, where changing economic trends, rapid digital transformation and evolving consumer preferences created a completely different competitive landscape over the years. Consumer's behavior has changed throughout the years, starting with the "*millennials*", which are primarily using digital channels to keep up with trends, so companies are continuously investing to improve their digital and social presence not only through their website and social media networks, where they use fashion bloggers and influencers, but also in stores with the use of tablets (to manage inventories) and the implementation of large touch screens.

The potential growth of the industry is weakened by the slightly slower global growth, potential disruption to trade relationships and uncertainty related to Brexit. Latin America, Middle East, Africa and Russia are experiecing more economic and political challenges, which will likely decrease consumer spending. Europe is facing a slowdown and US growth may have peaked in 2018. Emerging Asia Pacific countries and much of emerging Europe, on the other hand, will continue to see strong spending growth with more global players entering these markets.

Fig.5.2: Fashion companies' contribution to industry economic profit 2005-2015 vs. 2016 vs. 2017 %, based on publicly listed companies.



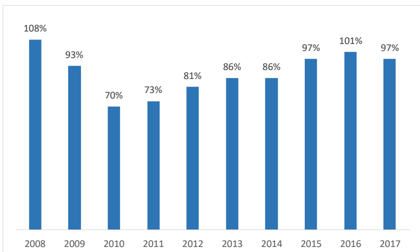
Source: McKinsey Global Fashion Index (MGFI)

According to data from McKinsey's FashionScope, besides the potential disruption from geopolitical and macroeconomic events, 2019 will be a year shaped by consumer shifts linked to technology, social causes and trust issues.

The top priorities are developing omnichannel capabilities, as the industry is digitizing and consumers increasingly demand faster distribution; satisfy consumer demands for ultra-transparency and sustainability, as concerns about the environment rise among consumers and companies; and enhance productivity and resilience, as the outlook is increasingly uncertain.

Regardless of size and segment, players now need to be nimble, think digital-fist and achieve ever-faster speed to market. They need to take an active stance on social issues, invest in transparency and sustainability, and, most importantly, have the courage to "self-disrupt" their own identity and the sources of their old success in order to realize these changes and win new generations of customers.

Fig.5.3: Top 20 fashion companies' contribution to industry economic profit 2008-2017 %, Based on publicly listed companies.



Source: McKinsey Global Fashion Index (MGFI)

India

Economic expansion is happening across Asia, and according to data from McKinsey's FashionScope, 2019 will be the year in which India will take center stage. The country is being propelled by strong macroeconomic tailwinds and is predicted to grow 8% YoY between 2018 and 2022. The Indian middle class is forecast to expand at 19.4% a year over the same period, outpacing China, Mexico and Brazil.

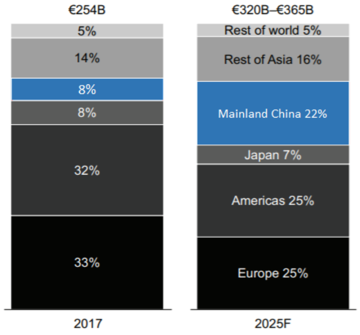
India's apparel market will be worth $59.3 billion in 2022, making it the sixth-largest in the world, and comparable to the UK ($65 billion) and Germany ($63.1 billion), according to data from McKinsey's FashionScope. The aggregate income of the addressable population is expected to triple between now and 2025, and higher incomes are likely to result in higher spending.

The supply side of the industry is equally robust, and the growth of textile and apparel exports is expected to accelerate. India's average labor cost is significantly lower than China's and comparable with Vietnam's. There is also a high availability of raw materials (e.g., cotton, wool, silk, and jute), which enable participation in the entire fashion value chain.

The bigger challenge is the poor quality of India's infrastructure. Still, many brands are determined to take advantage of India's blossoming growth. The majority are likely to choose one of three routes. First, players can partner with existing e-commerce platforms. This is most suitable for players with little brand awareness and with relatively low capital to invest, and offers a good way to test demand and customer preferences. Second, brands that have little local knowledge and are looking for fast entry can enter with a franchise model, developing physical retail spaces. Finally, players that have significant local knowledge and capital resources can create fully owned and operated stores.

Despite structural challenges that include inequality, infrastructure and market fragmentation, McKinsey's FashionScope expects strong economic growth, scale and rising tech-savviness will combine to make it the next big global opportunity in fashion and apparel.

Fig.5.4: Forecast of Share of global personal luxury goods market, by region in 2025.



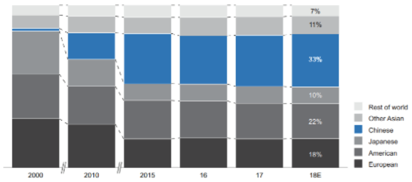
Source: Bain & Company

Trade Tensions

Some fashion companies have begun to reconsider their presence in, and exposure to, countries where tariff barriers could further increase the cost of doing business.

Fast fashion, which depends on short lead times, will need to find new strategies to maintain delivery speed and production quality, for example through near-shoring or even on-shoring. Still, tough commercial decisions will be required in the face of tariffs in key consumer markets. Luxury players, especially those that derive most of their income from China or the US, may be required to choose between raising prices or managing squeezed margins.

Fig.5.5: Share of global personal luxury goods market value, by consumer nationality.



Source: Bain & Company

China

The rise in aggregated income have increased significantly the Chinese middle class and consumers are now using their new spending power to express their own tastes through fashion. China is no longer the factory of the world, it is the world's fastest-growing consumer market, accounting for more than 18% of all final goods consumed and 22% of personal luxury goods (Fig.5.4, Fig.5.5).

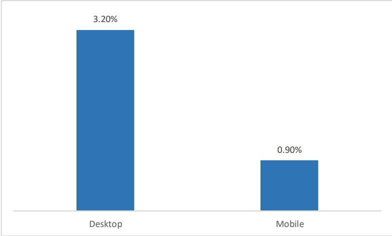
As China reaches a new stage of industrial maturity, it is continuing to develop its own domestic supply chains to meet rising domestic consumer demand. It is able to do this successfully because it has capabilities and capacity in every stage of textile production, from the cultivation of raw materials through fabric weaving, dyeing, finishing and sewing final garments. Automation technologies should ensure that China remains a powerhouse of global apparel production even as its wages rise.

Sustainability

Younger consumers are seriously concerned with social and environmental causes, which many regard as being the defining issues of our time. They increasingly back their beliefs with their shopping habits, favoring brands that are aligned with their values and avoiding those that don't.

Despite the many associated risks, some large brands will be willing to court controversy to express beliefs, particularly luxury players, which will seek to attract younger consumer groups looking to trade up. There are clear benefits from doing so, and the more that companies express an authentic view, the more that those who don't will be exposed.

Fig.5.6: Fashion average sales conversion rates, desktop and mobile, in %.



Source: McKinsey & Company analysis based on Instagram data

Brands are responding by integrating social and environmental themes into their products and services. Some companies are taking things a step further, putting purpose at the heart of their strategy and operations

Ethics and moral values are becoming increasingly important for consumers, in such a way that they are starting to strongly influence their purchasing decisions. Environment, sustainability, animal welfare, production and labor practices, positive impact on communities are all elements now taken into consideration when buying a product, and luxury goods are not an exception. In particular, younger generations and millennials are the most dedicated to sustainability and deeply care about a brand's ethical standards. Affluent millennial consumers want their preferred luxury brands to be involved and provide a positive contribution to their ecosystem with practical actions and are willing to pay a premium price for those products that come from a conscious brand. In fact, since they value transparency and authenticity, they expect the brands that they buy to reflect their own values. The new affluent generations are more socially and environmentally conscious, and so have higher expectations of luxury brands to be more sustainable and ethical in their production processes.

Now or Never

The time lag between discovery and purchase is a pain-point for customers who continue to expect better experiences. Companies are increasingly focusing on reducing this source of friction and launching new technologies to enable a smooth and speedy transition from inspiration to acquisition. This is a serious challenge for the fashion industry, especially given the relentless migration from desktop to mobile (Fig.5.6).

In response it's expected that next year the majority of fashion players will integrate commerce functionality into social media, enabling direct-to-product journeys. They will also likely continue to invest in improving mobile conversion rates streamlining the check-out process, improving search and optimising the user experience. Brands and retailers are also expected to increasingly collaborate with technology companies to develop proprietary tools.

Radical Transparency

The fashion industry suffers from a rising trust deficit due to horror stories of garment sweatshops, abuses, child labour and deadly industrial disasters. Costumers now demand transparency and are increasingly demanding to know if their products were made ethically and sustainably (issues including fair labour, sustainable resourcing and the environment).

In response, several brands have already moved towards "radical transparency" in manufacturing, hoping to regain the trust of disillusioned customers. This might include information about product origins or the environmental impact of manufacturing.

Yet transparency remains a major challenge for the global fashion industry because it relies on very fragmented supply chains often spread across multiple countries. The more complex that global supply chains become, the more vulnerable they are to fraud and error. As a great number of retailers do not own their own manufacturing facilities or use a system of agents and subcontractors known as "indirect sourcing," it makes it difficult for companies to monitor conditions across their supply chain.

Another challenge with rising levels of transparency is it can lead to the over-sharing of company affairs and potential conflicts with the need to protect trade secrets, information and privacy.

Blockchain allows fashion brands and retailers to inspire greater trust through the product lifecycle, as it could tell consumers not just where an item was made, but also whom it was made by, the conditions they worked in, how much they were paid, the composition of the garment, where the fabric was grown and what chemicals had been used. Blockchain powers transparency and allows brands to not only communicate their values, but also hold all of their supply chain partners and producers accountable for each step.

Self-Disrupt: The Explosion of Small

There are two key forces driving self-disruption: younger consumers' preference for novelty and advancements in both digital technology and social media.

Consumers are increasingly drawn to small brands with compelling and authentic narratives. According to the McKinsey Millennial Survey, Millennials have become the largest consumer segment worldwide and they crave the new, different, and authentic, while often scorning traditional brands. Millennials are more likely to see new brands as better or more innovative. Small brands fit the preferences of millennials, who will increasingly constitute the market, and the culture they have created.

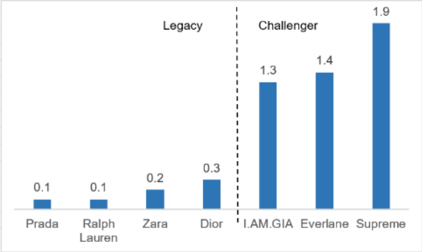
This small brands challenge fashion conventions through either branding, communication or distribution; and are characterized by rapid growth, social media influence and e-commerce focused distribution.

Digital technology gives small brands an easy way to engage with consumers, who are increasingly glued to their smartphones and the internet. E-commerce provides more exposure than traditional TV advertising or store visits could. Digital also creates a host of new, cost-effective marketing channels that small brands have been especially quick to tap in order to reach and excite consumers. Moreover, digital technologies have made it easier for small brands to build awareness and to target specific market niches and respond to new market trends (Fig.5.7, Fig.5.8).

Some small brands will grow into sizable brands, other brands will be short-lived. Still others might cater successfully to a niche and thrive as small brands but never grow into mass brands. This mixed outlook calls for larger companies having enough small brands in their portfolios to replace those that languish with new brands that can compensate for the lost sales.

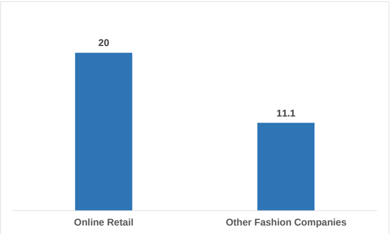
To compete with challengers and embrace disruption, established brands must learn how to think small, and continue to innovate, throughout M&A or throughout launching accelerators, incubators and innovation labs, which are more flexible and less risky. These methods allow companies to test new approaches in a more controlled environment, enabling brands to experiment while maintaining the authenticity of the parent brand, and to respond more quickly to new fashion trends.

Fig.5.7: Instagram like/follower ratio (LFR), Average number of likes on each post in proportion to number of followers over four weeks in August 2018.



Source: McKinsey & Company analysis based on Instagram data

Fig.5.8: 2017 average market capitalization to EBITDA multiples, based on averages of publicly listed fashion retailers with $100m+ annual revenue.



Source: McKinsey Global Fashion Index (MGFI).

On Demand

Design and production are typically a long process. Technology, analytics and nearshoring are part of the solution, enabling companies to respond quickly to source and develop products, squeeze production timelines and streamline distribution. Start-ups are at the vanguard of this, but some mainstream players are also stepping up and delivering.

From an economic perspective there are positives and negatives to on-demand production. On the plus side, it requires lower capital investment, and leads to smaller inventories and more flexibility and agility. Shorter inventory cycles can reduce demand uncertainty and contribute to a more sustainable small-batch production cycle. However, production costs are generally higher, due to the smaller batch sizes, as are transport costs if production is nearshore or offshore.

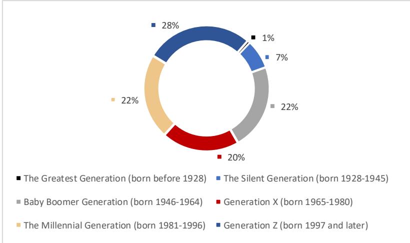
Stand-outs include digital and laser printing for finishing, knit-innovations, semi-automated sewing and automated logistics. These can help companies reduce labor intensity, do more customization, improve reliability and cut process times. Another opportunity is in micro factories, which enable high speed.

In the coming year, it’s expect to see continued investment in speed (both through capability building and M&A) via more onshoring and nearshoring, virtual sampling, micro factories and automation. In the technology space, automation intellectual property will continue to develop, with patent approvals likely to be a critical success factor in the years ahead.

Demographic change

The demographic change caused by ageing population and low birth rates will challenge companies over the next 10 years. There are four major generational demographics that economists have recognized as distinct markets: Baby Boomers, Gen X, Gen Y (more popularly known as Millennials), and Gen Z, each with unique perspectives on marketing tactics, purchasing preferences, political and cultural traits that have characterized their coming-of-age and shopping habits. (Fig.5.9). Luxury brands must develop strategies to successfully bridge the abyss between the market-s current consumer demographic to the next.

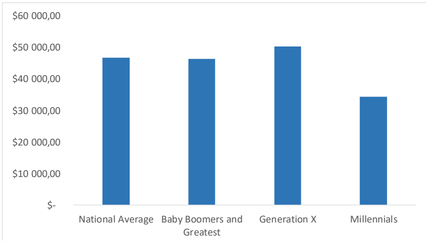
Fig.5.9: Population distribution in the United States in 2018, by generation.



Source: Statista

Baby Boomers
Born from mid 40’s to mid 60’s, are characterized by preferring convenience above all else and by having a high amount of disposable income (Fig.5.10). They dislike the searching experience and prefer to pay more for a product than wasting time looking for a lower price substitute. They are very comfortable browsing and shopping online according to Immersion Active but still prefer the personal engagement of traditional stores when making actual purchases. When it comes to social influence, Boomers are more selective on what sources they trust for brand recommendations. Although 82% of Baby Boomers are on social media, they are still unlikely to use the platform as an influence on their shopping habits, and only 12% of Boomers say they look to friends and family for advice on their purchases, according to LoyaltyOne.

Fig.5.10: Average estimated income of Americans in 2015, by generation

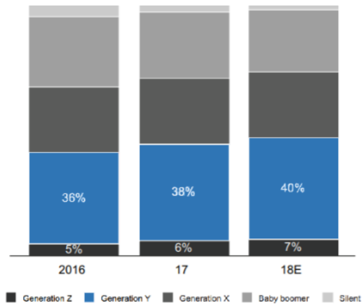


Source: Statista

Gen X
Born from mid 60’s to mid 80’s, are characterized by a conservative attitude and by making extensive research before shopping, throughout search engines, online reviews, and social media networks. They are not easy influenced by marketing tactics, and like Baby Boomers, Gen X also rely on quality customer service for brand loyalty.

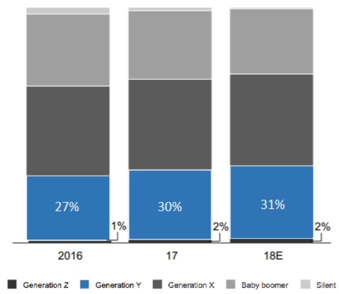
Gen Y (Millennials)
Born from mid 80’s to mid 90’s, are characterized by using web devices in nearly every aspect of their life, including for research and purchase, and even while shopping in stores, demanding the convenience of omnichannel accessibility during their shopping journey. With all the overwhelming online and physical offer of products, Gen Y actually tend to prefer browsing for products across brands rather than settling on an option and purchasing it. Another trait that strongly characterizes the Millennial market and sets it apart from older generations is seeing shopping as a social, fun and relaxing activity to be shared with friends and family, who they often ask for advise, according to Gen Buy. But the biggest influence in Millennials are social media posts and products reviews, as they seek the maximum information possible. Millennials are also increasingly concern about social and environmental causes, and relate more to brands that share the same values (Fig.5.11, Fig.5.12).

Fig.5.11: Share of global personal luxury goods consumers, by generation.



Source: : Bain & Company

Fig.5.12: Share of global personal luxury goods sales value, by generation.



Source: : Bain & Company

Gen Z
Born from mid 90’s to 2010, Gen Z are digital natives and use technology and internet to compare prices, styles, availability, and ratings of products to make the most educated purchase possible. Gen Z are more selective than other generations when making big expenditures and often delay the purchase until it gets a discount or even wait for newer products to become available, delaying their gratification. Although much of their research is digital, Gen Z still enjoys visiting physical stores as a social activity in the same way Millennials do. Like Gen Y, Gen Z is also likely to contribute to consumer-generated content for brands by voicing their comments and concerns online and by seeking out interactions with brand representatives. Despite being inundated with digital content, Gen Z still prefers to shop in-store

versus online, but they crave a store that can keep up with their tech more than anything. Companies need to understand that technology drives Gen Z’s shopping experience. Like Millennials, Gen Z prefers brands that are sustainable and environmentally friendly.

The change in demographics will impact the industry, causing a disruption in forward momentum and growth, and an increase in competition. Firms should be able to target the three primary consumer types - Baby Boomers, Gen X and Millennials - throughout different marketing strategies, using different channels and tactics. To retain baby boomers firms need to keep investing in store experience and personalized service; while to retain GenX firms need to keep an exceptional online image, with a good consumer service and a positive reviews; as for the Millennials, firm should invest in social media presence and influence, and in omnichannel accessibilities.

Economic Forecast

According with Statista, worldwide revenue in the Luxury Fashion segment is expected to grow annually by 2,1% (CAGR 2019-2023), from $109,016 million in 2019. For the same time period and segment, North America (U.S., México and Canada) is expected to grow annually by 0,2%; Europe is expected to grow annually by 2.7%; Asia Pacific is expected to grow annually by 2.9%; South America is expected to grow annually by 0.07%; Central America is expected to grow annually by 2.2%; and the Caribbean is expected to grow annually by 1.6%.

These forecast reflects the combination of the economic world slowdown, and macroeconomic and geopolitical tensions with the predicted rise in population, consumer price Index and higher consumer spending in regions like Asia Pacific.

Macroeconomic Environment

Given the current macroeconomic environment involving the personal luxury goods industry, there are always external factors influencing its outcome performance. The summary of four different sources of potential threats to the industry can be seen in the PEST analysis (Table 5.1).

Table 5.1: PEST Analysis.

Political	Economic
- Geopolitical Instability - Brexit Uncertanty -Terrorism -Trade Tensions	- Global Economic Slowdown - Increase in the Consumers Buying Power - Weaker GDP Growth
Socio-Cultural	**Technological**
- Social Trends - Social Responsability Weight on Firm's Policy - Products in Accordance with Local Culture	- E-commerce - Mobile-commerce - Use of data analytics - Printing Process - Supply Chain

Source: the Author

Market Structure

Globally, this industry tends to be classified as monopolistic competition in a multiregional business sphere. The personal luxury goods market can be segmented by product basis (accessories, apparels and beauty items), distribution (wholesale and retail) and channel (offline and online).

According to Bain & Company, retail continued growing steadily, gaining 8% last year, while wholesale grew only 3%, assuming constant exchange rates, as the strong performance of specialty stores was partially offset by the disappointing performance of department stores. This poor performance can be explained by online sales jumping by 24% last year, increasing at a 25% CAGR 2013-2017, reaching a market share of 10%. Online sales of luxury goods are expected to cannibalize the physical stores sales, as their market shares reaches 25% by 2025; still, the importance of these continue to increase and digital-born luxury companies are now opening physical stores.

Overall it is observable that a continuous and sustainable upward trend of the industry has reinforced its position, as one of the most profitable, stable and attractive industries to invest in, worldwide.

Key to Sound Revenues

Worldwide revenues are mostly driven by high-end sustained growth of demand in key regions, reflecting both local and tourist robust consumption and the rise in the number of high-net-worth-individuals, which is directly related with the growing net household affluence.

Furthermore, as the market raises in sophistication, the integration of different retail channels allied with the evident development of the digital luxury experience in *e-commerce* platforms and the retail evolution through the opening of single-brand stores, where the customers can enjoy the luxury experience, are also driving the sustained growth in the industry.

By 2020 more than 50% of consumers will be considered “middle class”. The luxury market will continue to experience significant growth to accommodate this rising new class. This market is dominated by Millennial and Gen Z, with high disposal income and are very prominent within the rising economies of the emerging markets.

The exposure of PVH to fast-growing markets like Asia Pacific, Middle East Africa, and Latin America, is also a key driver for the projected growth, and will help boost revenues for the coming years as spending power increases due to a rise in household aggregated incomes, in countries like India. Additionally, the North American market continues to grow even though it’s slowing down; as for Europe, market sentiment is forecasted to recover as trade tensions and geopolitical instability fades.

A Costly Innovation

Luxury is an innovation-driven industry, which relies not only on the ability to continuously innovate the artistic and handicraft abilities, but also on increasingly efficient distribution and logistics models.

In order to succeed, luxury brands must focus on strengthening its image and effectively communicate their value to consumers, which implies intense marketing related expenditures.

Additionally, with the outstanding development of the online channel, physical stores need to be reinvented to better engage with customers and to be transformed into deluxe places, delivering a distinctive and emotional luxury experience that younger generations, local consumers and tourists search for. In this context, companies are investing enormously in both physical stores and the recruitment of new talents with the higher specialization required to win in this luxury era.

Supply vs Demand

Supply and demand forces are critical factors on the economic growth of the industry.

Global sourcing, lower transportation costs and rising standards of offshore manufacturing are allowing the production of more appealing and high-quality products.

Despite their reasonably high prices, new-luxury products can generate high levels of profitability and growth. Accordingly, increasing supply is proportional to the increasing demand, although slightly inferior given the exclusivity of luxury goods.

According to Statista forecasts, the projected growth for the industry, between 2019-2023, is 2.1% CAGR. An overall YoY improvement, with a reasonable performance justified by the increasing demographics; a slow GDP growth; and the rise of the purchasing power of the middle class, especially in emerging markets, leads to an increase in consumer demand for luxury goods. The rise in preferences for luxury goods can be pointed out as a strong reason for the development in the communication systems, which have greatly influenced market trends, such as luxury brands collaborations and the boom in the streetwear fashion statement.

On other hand, the slowdown of the world economic growth, the increasing trade tensions between U.S. and China and the geopolitical instability in some countries has weakened market sentiment in both the supply and demand side.

SWOT Analysis

Table 5 2: SWOT Analysis.

STRENGTHS	WEAKNESSES
∆ Demand-Driven Industry	∆ Dependence on the availability of raw materials
∆ Cheap Labor	∆ Unskilled labour
∆ Management structure is simple	∆ Lack of presence, in particular regions
∆ Brand positioning and recognition	∆ Lack of diversification of products
∆ Different lines and brands	∆ Dilution of brand image associated with lower-priced production lines.
∆ Low volatility market	
OPPORTUNITIES	**THREATS**
∆ Upswing momentum	∆ Shift in consumer preferences
∆ Increasing purchasing power of the middle class	∆ Potential rise in raw materials' prices
∆ Increasing market presence from countries like China and Japan	∆ Economic downturns – purchasing power of customers decreases
∆ Entering unexploited markets	∆ Reputational issues
∆ Tech advances in the machinery (faster production & distribution)	∆ Changing political climate in countries where there is cheap labour
∆ R&D investment	∆ Political unrest in an area of raw material supply
∆ Change to lower price materials	
∆ Cooperation with competitors	
∆ Digital presence	
∆ M&A	

Source: the Author

Porter Five Forces

Bargaining Power of Suppliers - Low

Most companies of this industry rely on third parties for production of raw materials used by the manufacturers. There are some producers of raw materials and the prices are not expected to rise substantially.

Companies also rely on many independent non-exclusive manufacturers to produce the vast majority of their products. The high number of alternative manufactures and the low wages paid to the employees makes the bargaining power of suppliers low.

Bargaining Power of Buyers - Medium

The final consumer does hold some bargaining power: given the opportunity to choose between the wide variety of stores and brands, which could be described as poorly differentiated from each other in products and prices, the consumer does have the opportunity to choose the one that fits their preferences the best.

Regardless, taking a closer look towards the company perspective, its inventories are sold in an exclusive manner, to only a few selected large wholesale customers, making them dependent on these arrangements.

Threat of Substitutes Products – Medium/Low

There is no substitute product to replace the function of dress, but the consumers of this industry buy luxury apparel clothing for fashion, trend, status and appearance and not for their basic needs. This means that the existent "substitutes" are nothing but the competition. On the one hand, big players have a strong reputation and brand recognition that creates loyalty among their clients. On the other, the companies follow the same fashion trends and so, offer similar products.

Rivalry Among Existing Companies - High

The industry is very competitive as a result of its fashion orientation, where it holds a mix of large and small producers and a wide diversity of retailing choices. Companies compete worldwide with numerous designers, brands, manufacturers and retailers of apparels, shoes, hard luxury, beauty products and jewelry. Also, the rise of the online shopping results into more companies entering this industry given the low barriers to entry and increased level of transparency in pricing products and product comparison.

Threat of New Entrants - Medium

There are not many real barriers to enter, but there is little space for innovation in this industry and when it does occur, new companies might not have the immediate recognition to endure its presence in the industry, being this the reason why few companies have joined in recently, with success.

That said, new firms might find unique ways to enter the industry through marketing, especially online, as was the case of Farfetch. If the companies do manage to effectively promote and popularize their products, creating a brand reputation with a clear positioning in the market, it is fair to conclude that there is a reasonable level of threat of new entrants.

6. Investment Summary

With a price target of $104.30 and an upside potential of 18.90%, at the end of 2019, using the Discounted Cash Flow Method, my recommendation stands for BUY. Relative valuation through Multiples supports this view with an average price target of $98.89 and an upside potential of 12.73%. Both methods indicates that PVH is currently undervalued (Table 6.1).

Company Valuation

In order to evaluate PVH, it was used two different valuation methods, an absolute and a relative valuation model. For the absolute valuation model, it was used the Discounted Cash Flow (DCF) approach and for the relative valuation model, it was used the Market Multiples approach.

PVH total revenues are expected to growth at 3.10% CAGR between 2019F-2022F, from $ 9,656.8 million in 2018YE to $ 10,911 million in 2022YE. Tommy Hilfiger and Calvin Klein segments are the main drivers of PVH performance with almost 84% of revenue share 2018YE.

TH revenues are expected to grow at 3.57% CAGR between 2019F-2022F, from $4344.5 million in $2018YE to almost $5,000 million in 2022YE. CK revenues are expected to grow at 3.25% CAGR between 2019F-2022F, from $ 3,731.2 million in 2018YE to $ 4,239.9 million in 2022YE. Heritage Brands account for just 8% of 2018YE EBIT and revenues are expected to grow at 1.4% CAGR between 2019F-2022F, from $ 1,581.1 million in 2018YE to $ 1,671.5million in 2022YE.

The forecasts are based on industry studies of future regional demand and of the individual historical performance of PVH revenues in relation to its competitors, provided by Statista and by Deloitte.

As the Fashion Luxury industry reaches the stage of maturity and competition becomes more and more aggressive, PVH intends to increase capital investments in order to maintain, or if possible gain more, market share.

EBIT Margin is forecasted to slowly decrease from 8.81% to 8.22% between 2019F-2022F as the Costs of Goods Sold and SG&A converge to the last 2 years average (Fig.6.3).

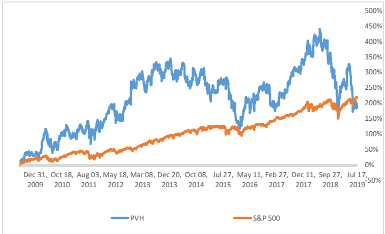
2018 EPS increased significantly due to the great sales performance allied with a significant reduction in COGS, SG&A and tax rate. For the forecast period, EPS are predicted to decrease (in relation to 2018) until the end of 2020 as COGS and SG&A slowly increase to the company's and industry normal values; as tax rate returns to the values stipulated by U.S. Tax Legislation and as macroeconomic and geopolitical conditions weakened and trade tensions continue. Even so, EPS during this period will be higher than the previous years, excluding 2018, reflecting increasing demand and revenues. Later, in 2021, EPS will start to slowly increase as revenues continue to grow and the main costs remain stable (Fig.6.4).

Investments Risks

PVH is subject to several risks as market and economic risks, political and regulatory risks and corporate risks. Currently, the greater risk to PVH operations is the intensification of geopolitical instability and trade tensions, that could lead to a rise in production and distribution costs.

A sensitivity analysis and a Monte Carlo simulation were performed to access the impact of certain input variables of the DCF valuation and to access the impact of other variables that could affect the forecast such as Cost of Goods and SG&A. Thus, a deeper analysis of PVH main risks is detailed in the Investment Risk section (Fig.6.5).

Fig.6.1: PVH vs S&P 500 Index cumulative returns.



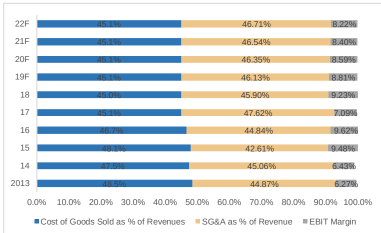
Source: Yahoo Finance

Table 6.1: Valuation Summary.

DCF Valuation		
Enterprise Value	$	13,098,281.34
Target Price	$	104.30
Upside Potential		18.90%
Multiples Valuation		
EV/EBIT	$	89.12
EV/REVENUE	$	99.25
P/E	$	81.02
P/Sales	$	126.16
Multiples Average	$	98.89
Upside Potential		12.73%

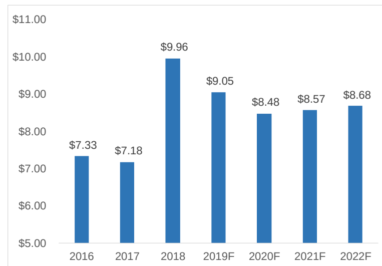
Source: the Author

Fig.6.2: Cost of Goods Sold as % of Revenue, SG&A as % of Revenue and EBIT Margin, since 2013 until the end of the forecast period.



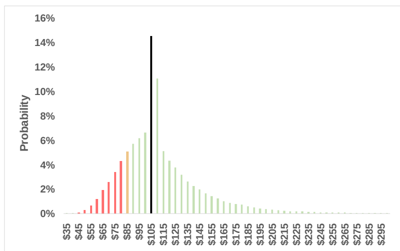
Source: The Author

Fig.6.3: PVH EPS, from 2013 to 2020.



Source: The Author

Fig.6.4: Monte Carlo Simulation.



Source: The Author

7. Valuation

In order to evaluate PVH, were used two different valuation methods, an absolute and a relative valuation model. For the absolute valuation model, it was used the Discounted Cash Flow (DCF) approach and for the relative valuation model, it was used the Market Multiples approach.

For the absolute valuation model, it was used the Discounted Cash Flow (DCF) approach. This method is the most appropriate for this company due to the amount of information available, which made it possible to reach the enterprise value of the group. The Dividend Discount Model is not suitable since PVH's dividends are extremely low, even though stable. In order to reach the enterprise value of the company, it was computed the Free Cash Flow to the Firm (FCFF) of the group.

For the relative valuation model, it was used the Market Multiples approach. In order to achieve the Target Price, a Peer group was selected from a large sample of fashion luxury companies, based in criteria's as structure, dimension and risk. For this valuation it was used the multiples Enterprise Value to EBIT (EV/EBIT), Enterprise Value to REVENUE (EV/REVENUE), Price to Sales (P/Sales) and Price to Earnings (P/E).

Forecast Analysis

Forecasted Horizon

The forecasted horizon can increase with the maturity and stability of the company, but should decrease when uncertainty rises. PVH although being a solid company, with strong marketing channels and brand recognition, doesn't have an outstanding growth neither as a dominant market position. As the consumer demand in apparel industry is characterized by high volatility, low predictability, and strong competition, the individua cash-flows can only be reasonably modeled for four years. Small forecast horizons also have low sensibility to economic life cycles.

Revenues

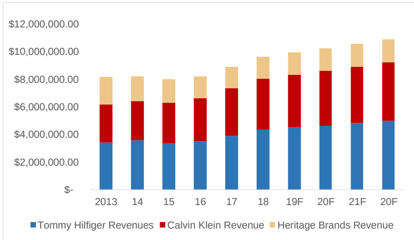
Total revenue is the sum of TH North America, TH International, CK North America, CK International, Heritage Brands WholeSale and Heritage Brands Retail revenues (Fig.7.1).

To forecast revenues, it was used the data provided by Statista forecast of 2019-2023 CAGR for the Luxury Fashion Industry and for the Apparel Industry for the various regions; and the data provided by the Global Powers of Luxury Goods 2018, Deloitte. According with the Global Powers of Luxury Goods 2018, Deloitte PVH's 2015-2017 revenue CAGR was 0,6 percent higher than the Top 10 companies and 2,8 percent higher than the Top 100 companies. For this reason, the growth rates provided by Statista were adjusted to represent the individuality of each brand.

TH North America CAGR: combination of the Statista forecasted CAGR 2019- 2023 for the Luxury Fashion Industry in North America of 0,2% and the performance of this segment in the last 3 years. The result is an expected CAGR of 1.7%, between 2019-2022, from $ 1,669.2 million 2018YE to $ 1,785.6 million 2020YE (Fig.7.2, Fig.7.4, Fig.7.5).

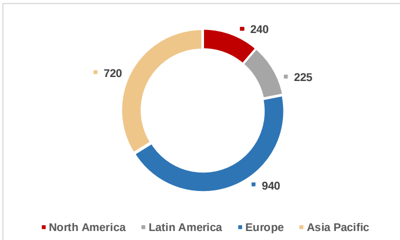
CV North America CAGR: combination of the Statista forecasted CAGR 2019-2023 for the Luxury Fashion Industry in North America of 0,2% and the performance of this segment in the last 3 years. The result is an expected CAGR of 1.7%, between 2019-2022, from $ 1,793.3 million 2018YE to $ 1,918.4 million 2022YE (Fig.7.3, Fig.7.4, Fig.7.6).

Fig.7.1: Combination of Total Revenue, from 2013 to 2020.



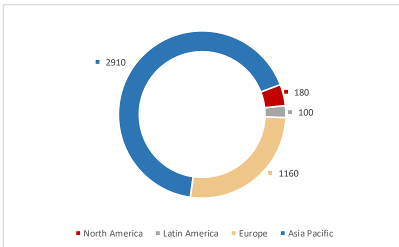
Source: The Autor

Fig.7.2: Tommy Hilfiger Stores by Region, in August 2019.



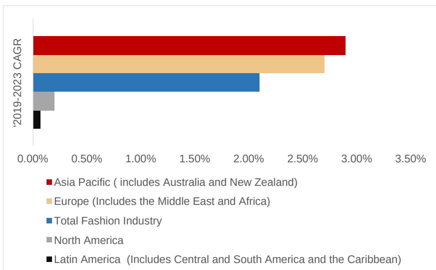
Source: The Autor

Fig.7.3: Calvin Klein Stores by Region, in August 2019.



Source: The Autor

Fig.7.4: Forecasted CAGR for 2029-2023 by region.



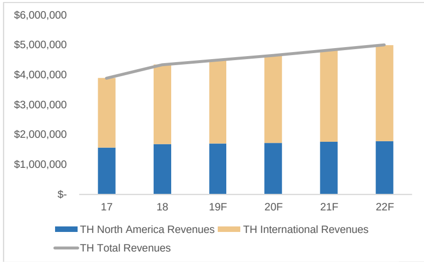
Source: The Autor

Heritage Brands CAGR: as the heritage brands are only sold in North America, it is a combination of the Statista forecasted CAGR 2019-2023 for the Apparel Industry in North America of 2,4% and the performance of this segment in the last 3 years. The result is an expected CAGR of 1.4%, between 2019-2022, from $1,581.1 million 2018YE to $1,918.4 million in 2022YE (Fig.7.4).

TH International CAGR: it is a combination of 1) Statista forecasted CAGR 2019-2023 for the Luxury Fashion Industry in Europe of 2,7%; in Asia Pacific of 2,9% and in Brazil (besides the company calling this segment “Latin America”, 90% of the revenues come from Brazil) of 0,07%; and 2) the performance of this segment in the last 3 years. Europe and Asia Pacific are gaining share YoY and it plausible to continue. TH has already licenses and stores in Latin America and so is expected to report revenues in this region by the end of 2019. The result is an expected CAGR, in average, at almost 4.7% between 2019-2022, from $ 2,675.3million 2018YE to $ 3,214 million 2022YE (Fig.7.2, Fig.7.4, Fig.7.5).

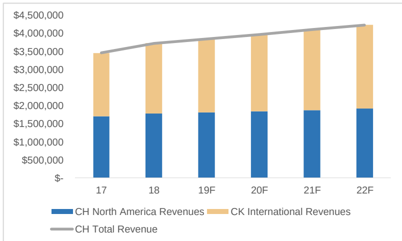
CV International CAGR: it is a combination of 1) Statista forecasted CAGR 2019-2023 for the Luxury Fashion Industry in Europe of 2,7%; in Asia Pacific of 2,9% and in Brazil (besides the company calling this segment “Latin America”, 90% of the revenues come from Brazil) of 0,07%; and 2) the performance of this segment in the last 3 years. CK has already strong presence in Europe and Asia Pacific and it is expected to continue. CK is also present in Latin America for some years, and so it is expected to slowly continue to grow that share. The result is an expected CAGR, in average, of 4.6% between 2019-2022, from $ 1,937.9 million 2018YE to $ 2,321.5 million 2022YE (Fig.7.3, Fig.7.4, Fig.7.6).

Fig.7.5: TH Revenues from 2017 to 2022F.



Source: The Autor

Fig.7.6: CK Revenues from 2017 to 2022F.



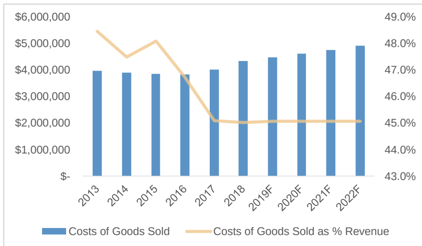
Source: The Autor

Main Costs

COGS

The majority of these costs are variable and include costs associated with the production and procurement of product, such as such as inbound freight costs, purchasing and receiving costs and inspection costs. Although COGS have been decreasing as % of sales for the past 6 years (Fig.7.7), are expected to stabilize at the last two years average of 45.06% as the company’s efficiency reaches maximum.

Fig.7.7: PVH COGS from 2013 to 2022F.



Source: The Autor

Selling, General and Administrative Expenses, exclusive of D&A and Leases Rent, include costs such as warehousing and distribution and have remain constant as % of Sales and it is assumed to continue this trend at 37.10%.

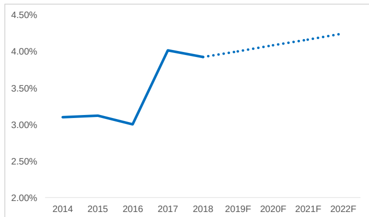
Leases Rent, as a % of total Right-to-use Assets is forecasted to stabilize at the last 3 years average of 27,88%.

Debt

PVH Long-Term Debt is composed by a senior unsecured credit facilities (the “2019 facilities”), debentures and senior unsecured euro notes.

On April 29, 2019 PVH refinanced a senior secured credit facilities (the “2016 facilities”) by entering into senior unsecured credit facilities (the “2019 facilities”), the proceeds of which, along with cash on hand, were used to repay all of the outstanding borrowings under the 2016 facilities, as well as the related debt issuance costs. The 2019 facilities consist of a $1,093.2 million U.S. dollar-denominated Term Loan A facility, a €500.0 million euro-denominated Term Loan A facility and senior unsecured revolving credit facilities consisting of (i) a $675.0 million U.S. dollar-denominated revolving credit facility, (ii) a CAD $70.0 million Canadian dollar denominated revolving credit facility available in U.S. dollars or Canadian dollars, (iii) a €200.0 million euro-denominated revolving credit facility available in euro, British pound sterling, Japanese yen, Swiss francs, Australian dollars and other agreed foreign currencies and (iv) a $50.0 million U.S. dollar-denominated revolving credit facility available in U.S. dollars or Hong Kong dollars. The 2019 facilities are due on April 29, 2024.

Fig7.8: Capital Expenditures of PPE as % of sales.



Source: The Autor

The Company has outstanding $100.0 million of debentures due November 15, 2023 that accrue interest at the rate of 7 3/4%; €350.0 million euro-denominated principal amount of 3 5/8% senior notes due July 15, 2024; €600.0 million euro-denominated principal amount of 3 1/8% senior notes due December 15, 2027.

Although Debt decreases during the forecasted period, the trend is not expected to continue, since this variations occur due to the mandatory long-term debt repayments, and by 2024, when the company reaches maturity of the new unsecured facilities, it's expected a new refinance of long-term debt.

Capex, Depreciation and Amortization

The capital expenditures in 2018 were $379 million compared to $358 million in 2017, and are expected to continue increasing as PVH intends to upgrade operations, supply chain, logistics systems and digital commerce platforms; and to investment in new stores and store expansions, as well as the expansion of the warehouse and distribution network in North America. Capital Expenditures have been also increasing as a % of revenue and are predicted to continuing increasing at 2% YoY as percentage of sales (Fig.7.8).

PPE depreciation rate has been stable over the previous years, and are assumed to continue this trend, converging to 31.06%. Other intangibles subject do amortization depreciation rate has also been stable over the previous years and it's expected to continue this trend, converging to 11.70%.

During the forecasted period Capex is always higher than D&A, and this trend is likely to continue for the coming years, due to the company's need of keeping investing in infrastructure, software and distribution channels (Fig.7.9).

WACC

The Valuation Period considered was 4 years. This period went from December 31, 2018 until December 31, 2022. After this period, the Terminal Value is then added.

It was assumed a **risk-free rate** of 2,8%, based on the U.S. 30 years treasury government bonds last 5 years average of monthly data. The **levered beta** it's assumed to be 1,05 based on a regression of PV Stock and S&P 500 Stock for the last 5 years of daily data. **Market Risk Premium** is assumed to be 5,75% according to KPMJ[1]. The **Cost of debt** was computed using a Debt Rating Approach, in which a default spread of 3% was considered, based on Moody's Rating (Table 7.1). **The Tax Rate** was assumed to be 21% according with the U.S. Tax Legislation (except for 2019) (Table 7.2).

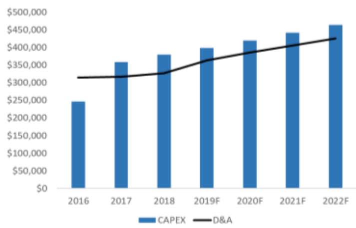
For **The Terminal Value (TV)**, it was followed the Perpetuity Growth Model approach. The **Perpetuity WACC** was adjusted to reflect the long-term leverage. The Perpetual Growth Rate (g) of 1,8% based on the ROE ratio and the Reinvestment Rate.

Multiples Valuation

From a sample of 14 companies given by Bloomberg, were selected 7 based on 2018 Revenues, Market Capitalization, Region and Capital Structure (Table 7.3). 2018 Revenues excluded LMVH for being 4.85 times higher than PVH 2018 Revenues, and all other companies have a deviation of less than 2 times PVH 2018

[1] Equity Market Risk Premium – Research Summary 31 March 2019 https://assets.kpmg/content/dam/kpmg/nl/pdf/2019/advisory/equity-market-risk-premium-research-summary-31032019.pdf

Fig.7.9: CAPEX vs D&A



Source: The Author

Table.7.1: Standard & Poor's PVH rating, in 2019.

Rating Agency	Raking
Standard & Poor's	BBB
Moody's	Ba1

Source: Company Data

Table.7.2: WACC Assumptions

Risk-Free Rate	2.80%
Beta Levered	1.05
Market Risk Premium	5.75%
Cost of Equity	**8.85%**
Cost of Debt	5.80%
Marginal Tax Rate	21.00%
After-Tax Cost of Debt	**4.58%**
Weight of Equity	44.52%
Weight of Debt	55.48%

Source: the Author

Table.7.3: PVH Peers Selection.

Companies	Revenues	Market Cap.	Region	Capital Struc.	Peer
LMVH	X	X	✓	✓	X
The Gap	✓	✓	✓	✓	✓
V.F. Corporation	✓	X	✓	✓	X
Estée Lauder	✓	X	✓	✓	X
Kering	✓	X	✓	✓	X
Hanesbrands	✓	✓	✓	X	X
Ralph Lauren	✓	✓	✓	✓	✓
Tapestry	✓	✓	✓	✓	✓
Levi Strauss	✓	✓	✓	✓	✓
Capri Holdings	✓	✓	✓	✓	✓
Burberry Group	✓	✓	✓	X	X
Hugo Boss	✓	✓	✓	✓	✓
Gildan Activewear	✓	✓	✓	✓	✓
G-III Apparel	✓	✓	X	✓	X

Source: Yahoo Finance, the Author

Table.7.4: PVH Multiples Valuation Summary

Multiple Average	
EV/EBIT Price	$ 89.12
EV/Revenue Price	$ 99.25
P/E Price	$ 81.02
P/S Price	$126.16
Price on 31st Dec, 2019	**$ 98.89**
Current Price	**$ 87.72**
Upside Potential	**12.73%**

Source: the Author

Revenue. Market Capitalization excluded LMVH, V.F. Corporation, Estée Lauder and Kering for being more than 5 times PVH Market Capitalization; all other companies have a deviation less than 2 times PVH Market Capitalization. The Capital Structure excluded Hanesbrands Inc and Burberry Group for being significant outliers. The Region factor only excluded G-III Apparel Group because it was the only company that was not performing or selling worldwide.

The seven companies selected are: The Gap, Inc; Ralph Lauren Corp; Tapestry Inc; Levi Strauss & Co.; Capri Holdings Limited; Hugo Boss and Gildan Activewear Inc. The multiples used in this valuation are EV/EBIT, EV/Revenue, P/E and P/Sales.

According to the **EV/EBIT** ratio, the Price Target is $89.12 for the end of 2019, representing a 2% Upside Potential. According to the **EV/Revenue** ratio, the Price Target is $99.25 for the end of 2019, representing a 13% Upside Potential. According to the **P/E ratio**, the Price Target is $81.02 for the end of 2019, representing a 8% Downside Potential. According to the **P/S ratio**, the price target is $126.16 for the end of 2019, representing a 44% Upside Potential.

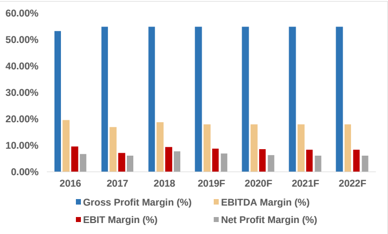
The average Target Price of the four multiples is $98.89, representing a 12.73% Upside Potential when compared to the current price, and confirm the BUY recommendation of the DCF analysis (Table 7.4).

8. Financial Analysis

Profitability Ratios

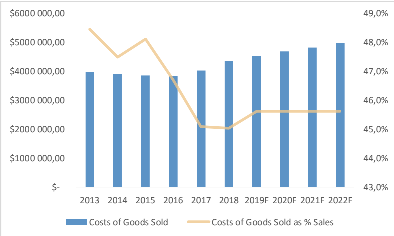
PVH has strong profitability ratios, with **Gross Profit Margin** slowly rising in the previous years, due to a decrease in COGS, but it's predicted to stabilize at 54.94% as revenue's growth decelerate driven by the world economic slowdown, as PVH reaches maximum efficiency. **EBITDA MARGIN** has remain more or less stable and it's expected to remain constant during the forecast period at 17.83%, as COGS and SG&A stabilize. **EBIT Margin** its expected to slowly decrease until the end of the valuation period, from 8.8% 2019YE to 8.2% 2022YE, mainly due to the increase in Capital Expenditures that impact PPE and Righ-of-use assets and consequently, D&A. Thus, **Net Profit Margin** also decreases, from 6.81% 2019YE to 5.96% 2022YE (Fig.8.1, Fig.8.2).

Fig.8.1: PVH Profitability Ratios from 2016 to 2022F



Source: Company Data; Author

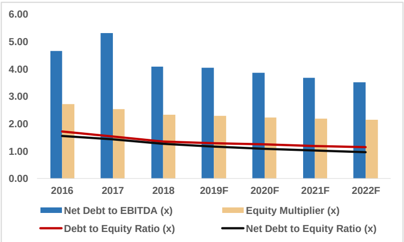
Fig.8.2: PVH COGS from 2013 to 2022F.



Solvency Ratios

PVH has strong solvency ratios and they all are expected to improve during the forecasted period. PVH equity began to increase in 2013, and it is expected to continue this trend until the end of the valuation period, mainly due to the to the good performance of the company which allowed the retention of earnings, increasing the total shareholders' equity. On other hand, Debt had been relatively stable for the past years, and it is expected to continue this trend. Although Debt decreases during the forecasted period, this is due to the mandatory long-term liabilities obligations the company faces, and it's expected to increase again by 2024, when the unsecured credit facilities reache maturity and the company refinances it self again (Fig.8.3).

Fig.8.3: PVH Solvency Ratios from 2016 to 2022F

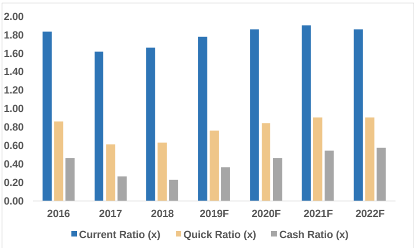


Source: Company Data; Author

Liquidity Ratios

PVH has strong liquidity ratios, since current liabilities represent only about 50% of current assets. Current Ratio it's expected to remain more or less stable, while Quick Ratio and Cash Ratio increase mainly due to the increase in cash and cash equivalents over the forecasted period, enhancing PVH ability to meet short-term obligations (Fig.8.4).

Fig.8.4: PVH Liquidity Ratios from 2016 to 2022F

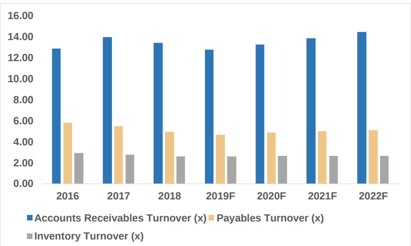


Source: Company Data; Author

Efficiency Ratios

PVH efficiency ratios (Accounts Receivable Turnover, Inventory Turnover and Payables Turnover) have remain more or less constant over the previous years and in alignment with industry values, and so, are predicted to continue this trend during the forecasted period (Fig.8.5).

Fig.8.5: PVH Efficiency Ratios from 2016 to 2022F



Source: Company Data; Author

DuPont Analysis

In the past years, ROE ratio had two spikes at 2015 and 2018 (Fig.8.6). This is explained by changes in ROA, while leverage decreases slowly (Fig.8.7). The spikes in ROA are explained by spikes in Net Profit Margin that, in 2015 even offset a sharp decrease in Assets Turnover (Fig.8.7).

In the long-term, Leverage is forecasted to stabilize at 2,18 and ROA at 4.32%, leading to a ROE of 9.4% (Fig.8.8). The stabilization of ROA happens due to an offset between the slowly decrease in Net Profit Margin and the slowly increase in Assets Turnover. Although ROE decreased, it´s still reflects PVH strong ability to generate profits from it´s stockholders investments (Fig.8.9).

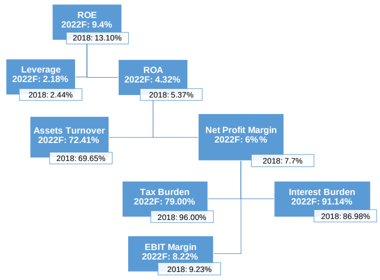
Operating Leases

The FASB issued in February 2016 new guidance on leases, that require lessees to recognize a right-of-use asset and a lease liability in the balance sheet for most leases, but retains an expense recognition model similar to the current guidance.

The lease liability corresponds to the present value of the lease payments over the lease term and the right-of-use asset should correspond to the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee's initial direct costs (e.g., commissions), but for simplicity, it was consider to be equal to the lease liability.

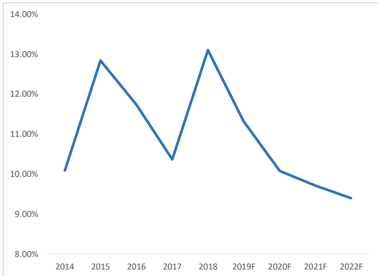
Although the guidance will only be effective for the company in the first quarter of 2019, for the purpose of this forecast, the balance sheet was adjusted for Right-of-use assets and lease liabilities since 2014. This impacts the company in the Equity and Debt weight's on WACC calculations (Table 8.1), as well as the Enterprise Value in the DCF (Table 8.2). The FCFF is also affected due to the adjustments of EBIT for the Imputed Leases Interest Expense; to the adjustment of Depreciations and to the adjustment of Capex (Table 8.3). In the figures below it's possible to see the changes in various components of the final target price with and without this adjustments. Target Price decreases mostly due to the decrease in FCFF explained by the greater amount of Capex variation in real terms compared to the increase in Depreciation and EBIT together.

Fig.8.6: PVH ROE Decomposition



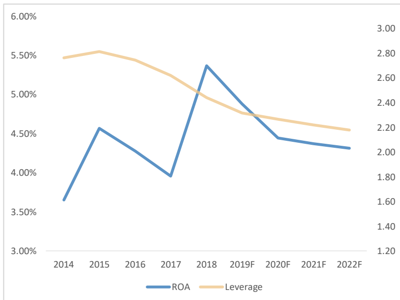
Source: Company Data; Author

Fig.8.7: PVH ROE from 2014 to 2022F



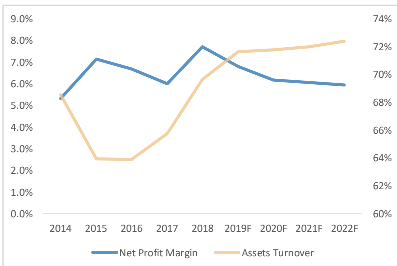
Source: Company Data; Author

Fig.8.8: PVH ROA vs Leverage from 2014 to 2022F



Source: Company Data; Author

Fig.8.9: PVH Net Profit Margin vs Assets Turnover from 2014 to 2022F.



Source: Company Data; Author

Table 8 1: Capitalization of Operating Leases Impacts on FCFF

Years	2015	2016	2017	2018	2019F	2020F	2021F	2022F
Δ Total Assets/Total Debt	$ 1,911,144.70	$ 2,004,088.53	$ 2,154,581.42	$ 1,824,866.05	$ 1,919,759.09	$ 2,019,586.56	$ 2,124,605.06	$ 2,235,084.53
Total Assets Growth	17.87%	18.11%	18.13%	15.38%	15.79%	16.23%	16.72%	17.28%
Total Debt Growth	31.11%	32.00%	33.93%	30.23%	31.83%	33.49%	35.35%	37.56%
Long-Term Debt Growth	41.39%	42.65%	48.12%	44.60%	47.39%	50.63%	54.68%	61.04%
Δ EBIT	$ 84,663.71	$ 88,781.12	$ 95,447.96	$ 80,841.57	$ 85,045.33	$ 89,467.68	$ 94,120.00	$ 99,014.24
Δ EBIT %	11.13%	11.25%	15.09%	9.07%	10.35%	10.85%	11.34%	11.83%
Δ Depreciation	$ 471,236.29	$ 419,018.88	$ 460,952.04	$ 511,658.43	$ 450,121.95	$ 473,528.29	$ 498,151.76	$ 524,055.65
Δ Depreciations %	187.67%	133.19%	145.32%	156.61%	123.93%	122.86%	122.75%	123.16%
Δ CAPEX	$ 838,876.77	$ 511,962.70	$ 611,444.94	$ 181,943.07	$ 545,014.98	$ 573,355.76	$ 603,170.26	$ 634,535.11
Δ CAPEX %	327.94%	194.07%	247.95%	50.81%	143.61%	143.71%	143.78%	143.81%

Source: Company Data; Author

Table 8 2: Capitalization of Operating Leases Impacts on WACC

Years	2018	2019	2020	2021	2022	Terminal
Cost of Debt	5.57%	4.93%	4.58%	4.58%	4.58%	4.58%
Cost of Equity	8.85%	8.85%	8.85%	8.85%	8.85%	8.85%
Weight of Debt	50.88%	49.45%	48.25%	47.00%	45.63%	48.24%
Weight of Equity	49.12%	50.55%	51.75%	53.00%	54.37%	51.76%
WACC	7.18%	6.91%	6.79%	6.85%	6.90%	6.79%
Δ WACC	-0.21%	-0.27%	-0.31%	-0.32%	-0.34%	-0.31%

Source: Company Data; Author

Table 8 3: Capitalization of Operating Leases Impacts on Target Price

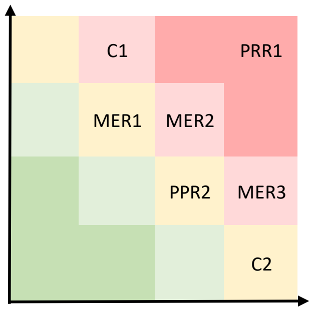
Δ PV FCFF	$ -93,945.27
Δ PV Terminal	$ -431,642.01
Δ Enterprise Value	$ -525,587.28
Δ Net Debt	$ 1,919,759.09
Δ Equity Value	$ -2,445,346.37
Δ Price	$ -32.64

Source: Company Data; Author

9. Investment Risks

Risk Matrix

Fig.9.1: Risk Matrix.



Source: the Author

Market & Economic Risk | Rise in raw material's prices (MER1)
The majority of the PVH products are produced by, and purchased, or procured, from independent manufacturers located in countries in Asia, South America, Europe, the Middle East, North America, Africa, Central America and the Caribbean. Although no single supplier or country is, or is expected, to become critical to PVH production needs, some events could materially and adversely affect PVH ability to produce or deliver the products and, as a result, have a material adverse effect on the business, financial condition and results of operations. This events include political, labor and military conflict involving any of the countries in which PVH or its contractors or suppliers operate; a significant decrease in availability or increase in cost of raw materials or the inability to use raw materials produced in a certain country due to political, human rights, labor, environmental, animal cruelty or other concerns; a significant increase in wage and shipping costs; natural disasters, which could result in closed factories and scarcity of raw materials; disease epidemics and health-related concerns, which could result in closed factories, reduced workforces, scarcity of raw materials and scrutiny or embargoing of goods produced in infected areas; imposition of regulations, quotas and safeguards relating to imports which could limit PVH ability to produce products in cost-effective countries that have the labor and expertise needed; imposition of duties, taxes and other charges on imports.

Market & Economic Risk | Exchange Rate (MER2)
Given the international reach of the company, the business it's exposed to foreign currency exchange rate fluctuations and control regulations, mainly the TH and CV business. PVH is exposed to translational currency impact and transactional currency impact. When the conversion is made from foreign operations to PVH reporting currency (U.S. dollars), it could lead to negative impacts on the company's results. To hedge, the company uses foreign currency forward exchange contracts or other derivative instruments to mitigate the cash flow or market value risks associated with these inventory and intercompany transactions. PVH is also exposed to foreign exchange risk in connection with the licensing businesses.

Market & Economic Risk | World Economic Slowdown (MER3)
The weaker-than-expected global economic growth could have an impact on PVH business due to the weak market sentiment, which could lead to a decrease in spending.

Political and Regulatory Risk | Geopolitical Instability -Trade Tariffs (PRR1)
A substantial portion of PVH products is imported into the United States, Canada, Europe, Asia and Latin America. These products are subject to various customs laws, which may impose tariffs, as well as quota restrictions. In addition, each of the countries in which the products are sold has laws and regulations covering imports. The United States and other countries in which the products are sold may impose, from time to time, new duties, tariffs, surcharges, or other import controls or restrictions. PVH is trying to minimize their exposure to import related risks through adjustments in product design and fabrication; shifts of production among countries (including consideration of countries with tariff preference and free trade agreements) and manufacturers; and geographical diversification of sources of supply.

Political and Regulatory Risk | Environment (PRR2)
PVH facilities and operations are subject to various environmental, health and safety laws and regulations. The company is responsible for the sites that own or operate and may incur in liabilities with respect to the contamination of these. The company has been in compliance with the terms of all applicable laws and regulations and these did not had, and are not expected to have, a material effect on capital expenditures, cash flows, earnings or competitive position. Also, the increasing stakeholders' awareness and preoccupation towards protected species and the

usage of animal-origin materials, are current worries that are expected to somehow impact the industry.

Corporate Risk | Reputation (C1)
The luxury sector is highly compelled by brand recognition and awareness thus, anything that might affect company's reputation, from rumors of child labor use to potential breaches in IT systems or even the possibility of not complying with products delivery date, could have quite an impact on companies' status and the away they are seen by stakeholders.

Corporate Risk | Counterfeiting and Parallel Distribution (C2)
With fewer impact, but quite probable, there is counterfeiting risk and parallel distribution. Although the industry's biggest players are aware of the resulting potential hazard, it's a tendency that is likely to prevail. Thus, in order to fight it, companies are beginning to use digital authentication measures, by coding or tagging products, allowing consumers to protect themselves, while feeding the companies' own databases.

Sensitivity Analysis

In the sensitivity analysis, it was tested the impact of the 2 main costs of an apparel company (COGS and SG&A); the impact of some WACC variables such as the risk-free rate, the value of the levered beta and the spread in the cost of debt; and the impact of both WACC and the Terminal Growth Rate on Price Target.

In Table 9.1, it's possible to see that changes in Costs of Goods Sold and SG&A have a huge impact on the Target Price, due to the huge influence these variables have on Net Income and consequently in the long-term, on the Enterprise Value. A combined decrease of just 2.5% in both costs, increases target price by 111.60%; and an equal increase of these cost, decreases target price by 114.91%.

Table 9 1: : Effects of changes in COGS and SG&A

Changes in SG&A as % of Revenues	Changes in Cost of Goods Sold as % of Revenue										
$ 104.30	42.56%	43.06%	43.56%	44.06%	44.56%	45.06%	45.56%	46.06%	46.56%	47.06%	47.56%
34.60%	$ 220.70 *111.60%*	$ 208.80 *100.19%*	$ 196.87 *88.76%*	$ 184.91 *77.29%*	$ 172.92 *65.79%*	$ 160.90 *54.27%*	$ 148.84 *42.71%*	$ 136.75 *31.12%*	$ 124.63 *19.49%*	$ 112.48 *7.84%*	$ 100.29 *-3.85%*
35.10%	$209.60 *100.96%*	$197.67 *89.52%*	$185.71 *78.06%*	$173.72 *66.56%*	$161.70 *55.03%*	$149.64 *43.48%*	$137.55 *31.89%*	$125.43 *20.26%*	$113.28 *8.61%*	$101.09 *-3.08%*	$88.86 *-14.80%*
35.60%	$198.47 *90.29%*	$186.51 *78.83%*	$174.52 *67.33%*	$162.50 *55.80%*	$150.44 *44.24%*	$138.36 *32.65%*	$126.23 *21.03%*	$114.08 *9.38%*	$101.89 *-2.31%*	$89.67 *-14.03%*	$77.41 *-25.78%*
36.10%	$187.31 *79.59%*	$175.32 *68.10%*	$163.30 *56.57%*	$151.24 *45.01%*	$139.16 *33.42%*	$127.04 *21.80%*	$114.88 *10.15%*	$102.69 *-1.54%*	$90.47 *-13.26%*	$78.21 *-25.01%*	$65.92 *-36.80%*
36.60%	$176.12 *68.86%*	$164.10 *57.34%*	$152.05 *45.78%*	$139.96 *34.19%*	$127.84 *22.57%*	$115.68 *10.92%*	$103.50 *-0.77%*	$91.27 *-12.49%*	$79.01 *-24.24%*	$66.72 *-36.03%*	$54.39 *-47.85%*
37.10%	$164.90 *58.11%*	$152.85 *46.55%*	$140.76 *34.96%*	$128.64 *23.34%*	$116.49 *11.69%*	$104.30 *0.00%*	$92.08 *-11.72%*	$79.82 *-23.47%*	$67.52 *-35.26%*	$55.19 *-47.08%*	$42.83 *-58.94%*
37.60%	$153.65 *47.32%*	$141.56 *35.73%*	$129.44 *24.11%*	$117.29 *12.45%*	$105.10 *0.77%*	$92.88 *-10.95%*	$80.62 *-22.70%*	$68.33 *-34.49%*	$56.00 *-46.31%*	$43.63 *-58.17%*	$31.23 *-70.06%*
38.10%	$142.36 *36.50%*	$130.24 *24.88%*	$118.09 *13.22%*	$105.90 *1.54%*	$93.68 *-10.18%*	$81.42 *-21.93%*	$69.13 *-33.72%*	$56.80 *-45.54%*	$44.44 *-57.40%*	$32.03 *-69.29%*	$19.59 *-81.22%*
38.60%	$131.05 *25.65%*	$118.89 *13.99%*	$106.71 *2.31%*	$94.48 *-9.41%*	$82.23 *-21.16%*	$69.93 *-32.95%*	$57.60 *-44.77%*	$45.24 *-56.62%*	$32.84 *-68.52%*	$20.40 *-80.44%*	$7.92 *-92.41%*
39.10%	$119.69 *14.76%*	$107.51 *3.08%*	$95.29 *-8.64%*	$83.03 *-20.39%*	$70.74 *-32.18%*	$58.41 *-44.00%*	$46.04 *-55.85%*	$33.64 *-67.75%*	$21.20 *-79.67%*	$8.72 *-91.64%*	-$3.80 *-103.64%*
39.60%	$108.31 *3.85%*	$96.09 *-7.87%*	$83.83 *-19.62%*	$71.54 *-31.41%*	$59.21 *-43.23%*	$46.85 *-55.08%*	$34.45 *-66.97%*	$22.01 *-78.90%*	$9.53 *-90.87%*	-$2.99 *-102.87%*	-$15.55 *-114.91%*

Source: the Author

In Table 9.2, it's possible to see that changes in the Risk-free-Rate and Levered Beta also have a huge impact on the target price, due to the influence these variables have on WACC computations. A decrease of 2.5% in the Rf, ceteris paribus, is enough to significantly decrease the WACC and consequently, increase the target price by 145.99%. An increase of the Rf by the same amount, ceteris paribus, has a lower impact on WACC, resulting in a decrease of just 52.06% on target price. A decrease of 0.3 points in the Levered Beta, ceteris paribus, increases target price by

32.01%, and an equal increase in Levered Beta decreases target price by 22.94%. Together, these variables can rise target price by 285.84% or drop it by 63.10%.

Table 9 2: Effects of changes in the Risk-Free Rate and Levered Beta.

Changes in Levered Beta	Changes in Risk-Free Rate										
	$104.30	0.30%	0.80%	1.30%	1.80%	2.30%	2.80%	3.30%	3.80%	4.30%	4.80%	5.30%
	0.75	$402.43	$305.75	$242.14	$197.13	$163.61	$137.68	$117.04	$100.22	$86.25	$74.47	$64.40
		285.84%	193.15%	132.17%	89.01%	56.87%	32.01%	12.22%	-3.91%	-17.31%	-28.60%	-38.26%
	0.81	$363.58	$280.85	$224.84	$184.42	$153.87	$129.99	$110.81	$95.07	$81.93	$70.79	$61.23
		248.60%	169.28%	115.58%	76.82%	47.53%	24.64%	6.25%	-8.85%	-21.45%	-32.13%	-41.29%
	0.87	$330.69	$259.08	$209.38	$172.87	$144.93	$122.86	$105.00	$90.24	$77.85	$67.30	$58.21
		217.06%	148.41%	100.75%	65.75%	38.96%	17.80%	0.67%	-13.48%	-25.36%	-35.47%	-44.18%
	0.93	$302.46	$239.88	$195.48	$162.35	$136.69	$116.24	$99.56	$85.69	$73.99	$63.99	$55.34
		190.00%	130.00%	87.43%	55.66%	31.06%	11.45%	-4.55%	-17.84%	-29.06%	-38.65%	-46.94%
	0.99	$277.99	$222.83	$182.92	$152.72	$129.07	$110.06	$94.45	$81.41	$70.34	$60.84	$52.60
		166.54%	113.64%	75.38%	46.43%	23.76%	5.53%	-9.44%	-21.95%	-32.56%	-41.66%	-49.57%
	1.05	$256.57	$207.57	$171.51	$143.87	$122.01	$104.30	$89.66	$77.36	$66.88	$57.85	$49.98
		145.99%	99.02%	64.44%	37.94%	16.98%	0.00%	-14.04%	-25.83%	-35.88%	-44.54%	-52.08%
	1.11	$237.65	$193.85	$161.11	$135.71	$115.44	$98.90	$85.14	$73.53	$63.59	$54.99	$47.48
		127.86%	85.86%	54.47%	30.12%	10.69%	-5.18%	-18.37%	-29.50%	-39.03%	-47.28%	-54.47%
	1.17	$220.84	$181.44	$151.58	$128.16	$109.32	$93.84	$80.89	$69.90	$60.46	$52.27	$45.09
		111.74%	73.96%	45.33%	22.88%	4.82%	-10.03%	-22.45%	-32.98%	-42.03%	-49.89%	-56.77%
	1.23	$205.79	$170.16	$142.82	$121.17	$103.60	$89.08	$76.87	$66.46	$57.48	$49.66	$42.80
		97.31%	63.15%	36.93%	16.17%	-0.66%	-14.59%	-26.30%	-36.28%	-44.89%	-52.38%	-58.97%
	1.29	$192.24	$159.87	$134.74	$114.66	$98.25	$84.60	$73.06	$63.19	$54.64	$47.18	$40.60
		84.32%	53.29%	29.19%	9.93%	-5.80%	-18.89%	-29.95%	-39.42%	-47.61%	-54.77%	-61.07%
	1.35	$179.98	$150.44	$127.26	$108.59	$93.23	$80.37	$69.46	$60.08	$51.93	$44.80	$38.49
		72.56%	44.25%	22.02%	4.11%	-10.62%	-22.94%	-33.41%	-42.40%	-50.21%	-57.05%	-63.10%

Source: the Author

In Table 9.3, it's possible to see that changes in the Market Risk Premium and Levered Beta also have a huge impact on the target price, due to the influence these variables have on WACC computations. A decrease of 2.5% in the MRP, ceteris paribus, increases the target price by 54.44%. An increase of the MRP by the same amount, ceteris paribus, has a lower impact on WACC, resulting in a decrease of just 32.55% on target price. Together, the two variables can rise target price by 85.20% or drop it by 53.11%.

Table.9.3: : Effects of changes in the Market Risk Premium and Levered Beta.

Changes in Levered Beta	Changes in Market Risk Premium										
	$104.30	3.25%	3.75%	4.25%	4.75%	5.25%	5.75%	6.25%	6.75%	7.25%	7.75%	8.25%
	0.75	$193.16	$179.76	$167.69	$156.75	$146.79	$137.68	$129.33	$121.64	$114.53	$107.95	$101.83
		85.20%	72.36%	60.78%	50.29%	40.74%	32.01%	24.00%	16.62%	9.81%	3.50%	-2.37%
	0.81	$186.03	$172.39	$160.15	$149.11	$139.11	$129.99	$121.66	$114.01	$106.96	$100.44	$94.41
		78.37%	65.29%	53.55%	42.97%	33.37%	24.64%	16.64%	9.31%	2.55%	-3.69%	-9.48%
	0.87	$179.29	$165.45	$153.09	$141.99	$131.96	$122.86	$114.57	$106.97	$100.00	$93.57	$87.62
		71.90%	58.63%	46.78%	36.14%	26.53%	17.80%	9.85%	2.57%	-4.12%	-10.29%	-15.99%
	0.93	$172.90	$158.90	$146.46	$135.32	$125.30	$116.24	$108.00	$100.48	$93.58	$87.24	$81.39
		65.78%	52.35%	40.42%	29.75%	20.14%	11.45%	3.55%	-3.67%	-10.27%	-16.35%	-21.96%
	0.99	$166.84	$152.72	$140.22	$129.07	$119.08	$110.06	$101.89	$94.45	$87.65	$81.40	$75.65
		59.96%	46.42%	34.44%	23.76%	14.17%	5.53%	-2.31%	-9.44%	-15.97%	-21.95%	-27.47%
	1.05	$161.07	$146.86	$134.33	$123.20	$113.25	$104.30	$96.20	$88.85	$82.14	$76.00	$70.35
		54.44%	40.81%	28.80%	18.13%	8.58%	0.00%	-7.76%	-14.81%	-21.24%	-27.14%	-32.55%
	1.11	$155.59	$141.32	$128.78	$117.68	$107.78	$98.90	$90.89	$83.63	$77.02	$70.98	$65.43
		49.18%	35.49%	23.47%	12.83%	3.34%	-5.18%	-12.85%	-19.81%	-26.15%	-31.95%	-37.27%
	1.17	$150.36	$136.05	$123.52	$112.46	$102.63	$93.84	$85.92	$78.76	$72.25	$66.31	$60.86
		44.17%	30.44%	18.43%	7.83%	-1.60%	-10.03%	-17.62%	-24.49%	-30.73%	-36.43%	-41.65%
	1.23	$145.38	$131.05	$118.55	$107.54	$97.79	$89.08	$81.26	$74.19	$67.79	$61.95	$56.60
		39.39%	25.65%	13.66%	3.11%	-6.24%	-14.59%	-22.09%	-28.86%	-35.01%	-40.61%	-45.73%
	1.29	$140.62	$126.29	$113.82	$102.89	$93.21	$84.60	$76.87	$69.91	$63.61	$57.87	$52.63
		34.83%	21.08%	9.13%	-1.35%	-10.63%	-18.89%	-26.29%	-32.97%	-39.01%	-44.51%	-49.54%
	1.35	$136.07	$121.76	$109.34	$98.48	$88.89	$80.37	$72.75	$65.89	$59.69	$54.05	$48.91
		30.47%	16.74%	4.84%	-5.58%	-14.77%	-22.94%	-30.25%	-36.83%	-42.77%	-48.18%	-53.11%

Source: the Author

In Table 9.4, it's possible to see that changes in the Risk-free-Rate and in Debt Spread also have a huge impact on the target price, due to the influence these variables have on WACC computations. A decrease of 2% in the Debt Spread, ceteris paribus, decreases WACC and consequently, increases the target price by 37.56%. An increase of the Debt Spread by the same amount, ceteris paribus, has a lower impact on WACC, resulting in a decrease of just 25.65% on target price.

Table 9 4: : Effects of changes in the Risk-Free Rate and Debt Spread.

	Changes in Risk-Free Rate										
Changes in Debt Spread / $ 104.30	0.30%	0.80%	1.30%	1.80%	2.30%	2.80%	3.30%	3.80%	4.30%	4.80%	5.30%
1.00%	$434.38	$325.59	$255.65	$206.91	$171.01	$143.48	$121.69	$104.04	$89.44	$77.17	$66.72
	316.48%	212.18%	145.12%	98.38%	63.96%	37.56%	16.68%	-0.25%	-14.25%	-26.01%	-36.03%
1.40%	$384.70	$294.49	$234.36	$191.43	$159.26	$134.25	$114.26	$97.93	$84.32	$72.83	$62.99
	268.85%	182.35%	124.70%	83.55%	52.70%	28.72%	9.56%	-6.11%	-19.15%	-30.17%	-39.61%
1.80%	$343.99	$267.96	$215.72	$177.62	$148.62	$125.81	$107.40	$92.24	$79.54	$68.75	$59.47
	229.81%	156.92%	106.83%	70.30%	42.50%	20.63%	2.98%	-11.56%	-23.74%	-34.09%	-42.99%
2.20%	$310.02	$245.07	$199.26	$165.22	$138.95	$118.06	$101.05	$86.94	$75.06	$64.90	$56.13
	197.24%	134.97%	91.05%	58.41%	33.22%	13.19%	-3.11%	-16.64%	-28.04%	-37.77%	-46.18%
2.60%	$281.25	$225.12	$184.62	$154.03	$130.11	$110.91	$95.15	$81.99	$70.84	$61.28	$52.98
	169.66%	115.84%	77.01%	47.68%	24.75%	6.34%	-8.77%	-21.39%	-32.08%	-41.25%	-49.21%
3.00%	$256.57	$207.57	$171.51	$143.87	$122.01	$104.30	$89.66	$77.36	$66.88	$57.85	$49.98
	145.99%	99.02%	64.44%	37.94%	16.98%	0.00%	-14.04%	-25.83%	-35.88%	-44.54%	-52.08%
3.40%	$235.16	$192.02	$159.71	$134.61	$114.56	$98.17	$84.53	$73.00	$63.14	$54.60	$47.14
	125.47%	84.11%	53.13%	29.06%	9.84%	-5.88%	-18.95%	-30.00%	-39.46%	-47.65%	-54.80%
3.80%	$216.42	$178.15	$149.03	$126.14	$107.67	$92.47	$79.73	$68.91	$59.61	$51.53	$44.44
	107.50%	70.81%	42.89%	20.94%	3.24%	-11.34%	-23.55%	-33.93%	-42.85%	-50.60%	-57.39%
4.20%	$199.88	$165.70	$139.32	$118.36	$101.30	$87.16	$75.24	$65.06	$56.27	$48.61	$41.86
	91.65%	58.87%	33.58%	13.48%	-2.87%	-16.44%	-27.86%	-37.62%	-46.05%	-53.40%	-59.86%
4.60%	$185.18	$154.46	$130.46	$111.19	$95.39	$82.19	$71.01	$61.42	$53.11	$45.83	$39.41
	77.54%	48.09%	25.08%	6.61%	-8.55%	-21.20%	-31.91%	-41.11%	-49.08%	-56.06%	-62.21%
5.00%	$172.01	$144.26	$122.33	$104.56	$89.88	$77.54	$67.04	$57.99	$50.11	$43.19	$37.07
	64.92%	38.32%	17.29%	0.25%	-13.83%	-25.65%	-35.72%	-44.40%	-51.96%	-58.59%	-64.46%

Source: the Author

In Table 9.5, it's possible to see that changes in the Tax Rate and in Debt Spread on the target price. A decrease of 10% in the Tax Rate, ceteris paribus, increases WACC and consequently, decreases the target price by 10.47%. An increase of the Tax Rate by the same amount, ceteris paribus, increases by target price by 12.03%.

Table 9 5: Effects of changes in Tax Rate and Debt Spread

	Changes in Tax Rate										
Changes in Debt Spread / $ 104.30	11.00%	13.00%	15.00%	17.00%	19.00%	21.00%	23.00%	25.00%	27.00%	29.00%	31.00%
1.00%	$132.48	$134.58	$136.74	$138.93	$141.18	$143.48	$145.83	$148.23	$150.68	$153.20	$155.77
	27.02%	29.04%	31.10%	33.21%	35.36%	37.56%	39.82%	42.12%	44.48%	46.89%	49.35%
1.40%	$123.18	$125.30	$127.46	$129.67	$131.94	$134.25	$136.63	$139.05	$141.54	$144.09	$146.71
	18.11%	20.13%	22.21%	24.33%	26.50%	28.72%	30.99%	33.32%	35.71%	38.16%	40.66%
1.80%	$114.72	$116.84	$119.00	$121.22	$123.48	$125.81	$128.19	$130.64	$133.15	$135.72	$138.36
	10.00%	12.02%	14.10%	16.22%	18.40%	20.63%	22.91%	25.26%	27.66%	30.13%	32.66%
2.20%	$106.99	$109.10	$111.25	$113.46	$115.73	$118.06	$120.44	$122.89	$125.41	$127.99	$130.64
	2.58%	4.60%	6.67%	8.79%	10.96%	13.19%	15.48%	17.83%	20.24%	22.71%	25.26%
2.60%	$99.90	$101.99	$104.13	$106.33	$108.59	$110.91	$113.29	$115.73	$118.25	$120.83	$123.49
	-4.21%	-2.21%	-0.16%	1.95%	4.12%	6.34%	8.62%	10.96%	13.37%	15.85%	18.40%
3.00%	$93.38	$95.45	$97.57	$99.75	$101.99	$104.30	$106.67	$109.10	$111.61	$114.19	$116.84
	-10.47%	-8.49%	-6.45%	-4.36%	-2.21%	0.00%	2.27%	4.61%	7.01%	9.48%	12.03%
3.40%	$87.35	$89.40	$91.50	$93.66	$95.88	$98.17	$100.52	$102.94	$105.44	$108.00	$110.65
	-16.25%	-14.29%	-12.27%	-10.20%	-8.07%	-5.88%	-3.62%	-1.30%	1.09%	3.55%	6.09%
3.80%	$81.76	$83.79	$85.87	$88.00	$90.20	$92.47	$94.80	$97.20	$99.68	$102.23	$104.87
	-21.60%	-19.67%	-17.67%	-15.62%	-13.51%	-11.34%	-9.11%	-6.80%	-4.43%	-1.98%	0.55%
4.20%	$76.58	$78.57	$80.63	$82.74	$84.91	$87.16	$89.47	$91.85	$94.30	$96.84	$99.45
	-26.58%	-24.66%	-22.70%	-20.67%	-18.58%	-16.44%	-14.22%	-11.94%	-9.58%	-7.15%	-4.65%
4.60%	$71.75	$73.72	$75.74	$77.83	$79.98	$82.19	$84.48	$86.83	$89.27	$91.78	$94.37
	-31.21%	-29.32%	-27.38%	-25.38%	-23.32%	-21.20%	-19.01%	-16.75%	-14.41%	-12.00%	-9.51%
5.00%	$67.24	$69.18	$71.18	$73.23	$75.35	$77.54	$79.80	$82.13	$84.54	$87.03	$89.60
	-35.53%	-33.67%	-31.76%	-29.78%	-27.75%	-25.65%	-23.49%	-21.25%	-18.94%	-16.56%	-14.09%

Source: the Author

In Fig.9.6, it's possible to see that small changes in Terminal Growth Rate and in WACC have huge impacts on the target price as this can drop by 46.66% or rise by 117.41% in the worst and best case scenario, respectively.

Although the terminal value represents 81.66% of total PVH's enterprise value, changes in WACC produce higher volatility in prices. This is important since variations can happen, as changes in the risk-free-rate, beta, spread of debt, market-risk premium and capital structure. A decrease of 1.5% in Terminal WACC, ceteris paribus, rises target price by 76.36% and an equal increase drops target price by 38.88%

Table 9 6: Effects of changes in the Long-Term WACC and Terminal Growth Rate

Changes in the Terminal Growth Rate	Changes in Long-Term WACC										
$104.30	4.98%	5.28%	5.58%	5.88%	6.18%	6.48%	6.78%	7.08%	7.38%	7.68%	7.98%
1.30%	$ 152.77	$ 136.34	$ 122.24	$ 110.02	$ 99.32	$ 89.88	$ 81.49	$ 73.99	$ 67.25	$ 61.16	$ 55.63
	46.47%	*30.72%*	*17.21%*	*5.49%*	*-4.77%*	*-13.82%*	*-21.87%*	*-29.05%*	*-35.52%*	*-41.36%*	*-46.66%*
1.40%	$ 158.31	$ 141.03	$ 126.25	$ 113.48	$ 102.34	$ 92.54	$ 83.84	$ 76.09	$ 69.13	$ 62.85	$ 57.16
	51.78%	*35.22%*	*21.05%*	*8.81%*	*-1.88%*	*-11.28%*	*-19.61%*	*-27.05%*	*-33.72%*	*-39.74%*	*-45.20%*
1.50%	$ 164.16	$ 145.96	$ 130.46	$ 117.11	$ 105.49	$ 95.30	$ 86.28	$ 78.26	$ 71.07	$ 64.59	$ 58.73
	57.40%	*39.94%*	*25.08%*	*12.28%*	*1.15%*	*-8.63%*	*-17.27%*	*-24.97%*	*-31.86%*	*-38.07%*	*-43.69%*
1.60%	$ 170.37	$ 151.16	$ 134.88	$ 120.90	$ 108.78	$ 98.18	$ 88.82	$ 80.50	$ 73.07	$ 66.39	$ 60.35
	63.35%	*44.93%*	*29.32%*	*15.92%*	*4.30%*	*-5.87%*	*-14.84%*	*-22.81%*	*-29.94%*	*-36.35%*	*-42.14%*
1.70%	$ 176.95	$ 156.65	$ 139.52	$ 124.88	$ 112.22	$ 101.17	$ 91.45	$ 82.84	$ 75.15	$ 68.25	$ 62.02
	69.66%	*50.19%*	*33.77%*	*19.73%*	*7.59%*	*-3.00%*	*-12.32%*	*-20.58%*	*-27.95%*	*-34.56%*	*-40.53%*
1.80%	$ 183.94	$ 162.46	$ 144.41	$ 129.05	$ 115.81	$ 104.30	$ 94.19	$ 85.26	$ 77.30	$ 70.17	$ 63.75
	76.36%	*55.76%*	*38.46%*	*23.73%*	*11.04%*	*0.00%*	*-9.69%*	*-18.26%*	*-25.89%*	*-32.72%*	*-38.88%*
1.90%	$ 191.39	$ 168.61	$ 149.57	$ 133.43	$ 119.57	$ 107.56	$ 97.05	$ 87.77	$ 79.53	$ 72.16	$ 65.53
	83.51%	*61.66%*	*43.40%*	*27.93%*	*14.65%*	*3.13%*	*-6.95%*	*-15.85%*	*-23.75%*	*-30.81%*	*-37.17%*
2.00%	$ 199.34	$ 175.13	$ 155.01	$ 138.03	$ 123.51	$ 110.97	$ 100.02	$ 90.38	$ 81.84	$ 74.22	$ 67.38
	91.13%	*67.92%*	*48.62%*	*32.34%*	*18.42%*	*6.39%*	*-4.10%*	*-13.34%*	*-21.53%*	*-28.84%*	*-35.40%*
2.10%	$ 207.85	$ 182.07	$ 160.77	$ 142.88	$ 127.65	$ 114.53	$ 103.12	$ 93.10	$ 84.24	$ 76.35	$ 69.28
	99.28%	*74.57%*	*54.14%*	*36.99%*	*22.39%*	*9.81%*	*-1.13%*	*-10.74%*	*-19.23%*	*-26.80%*	*-33.57%*
2.20%	$ 216.96	$ 189.45	$ 166.87	$ 147.99	$ 131.99	$ 118.26	$ 106.35	$ 95.93	$ 86.73	$ 78.56	$ 71.26
	108.02%	*81.65%*	*59.99%*	*41.89%*	*26.55%*	*13.39%*	*1.97%*	*-8.03%*	*-16.84%*	*-24.68%*	*-31.68%*
2.30%	$ 226.76	$ 197.34	$ 173.34	$ 153.39	$ 136.56	$ 122.17	$ 109.73	$ 98.87	$ 89.32	$ 80.85	$ 73.30
	117.41%	*89.20%*	*66.19%*	*47.07%*	*30.93%*	*17.13%*	*5.21%*	*-5.20%*	*-14.36%*	*-22.48%*	*-29.72%*

Source: the Author

The average of all target prices of the sensitivity analysis is $114.62, supporting the view that PVH is currently undervalued.

Monte Carlo Simulation

To complement the sensitivity analysis performed above, a Monte Carlo Simulation was performed, covering a total of 100,000 trials. The Terminal WACC and Terminal Growth Rate were the variables chosen, which have a huge impact on PVH's target price.

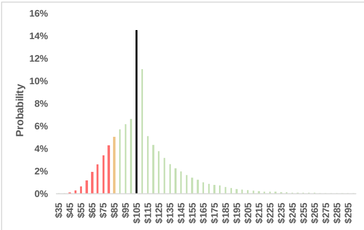
Results showed a mean price target of $111.93 representing an Upside Potential of 27.60%, which is near the price target computed by the DCF valuation of $104.30. The probability of a BUY recommendation is close to 85% (Fig.9.2, Fig.9.3).

Fig.9 2: Summary of Monte Carlo Simulation

Summary of Monte Carlo Simulation		
Number of Trials		100,000
Mean	$	111.93
Standart Deviation	$	64.30
25th Percentile	$	89.78
50th Percentile	$	104.27
85th Percentile	$	139.97
Upside Potential		27.60%

Source: the Author

Fig.9 3: Monte Carlo Simulation



Source: the Author

Appendix

Appendix 1: Balance Sheet

Years	2018	2019F	2020F	2021F	2022F
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 452,000.00	$ 726,143.81	$ 949,512.93	$ 1,153,759.80	$ 1,317,286.84
Trade receivables	$ 777,800.00	$ 774,949.55	$ 766,939.80	$ 757,870.01	$ 747,593.77
Other receivables	$ 26,000.00	$ 33,886.16	$ 34,933.40	$ 36,021.33	$ 37,148.23
Inventories, net	$ 1,732,400.00	$ 1,714,096.62	$ 1,762,111.95	$ 1,811,905.40	$ 1,863,375.48
Prepaid expenses	$ 168,700.00	$ 179,985.51	$ 185,547.89	$ 191,326.40	$ 197,311.87
Other	$ 81,700.00	$ 81,700.00	$ 81,700.00	$ 81,700.00	$ 81,700.00
Total Current Assets	**$ 3,238,600.00**	**$ 3,510,761.65**	**$ 3,780,745.98**	**$ 4,032,582.95**	**$ 4,244,416.18**
Property, Plant and Equipment, net	$984,500.00	$1,077,636.77	$1,162,397.18	$1,242,544.34	$1,320,698.98
Right-of-use Assets	$1,824,866.05	$1,919,759.09	$2,019,586.56	$2,124,605.06	$2,235,084.53
Goodwill	$ 3,670,500.00	$ 3,670,500.00	$ 3,670,500.00	$ 3,670,500.00	$ 3,670,500.00
Tradenames	$ 2,863,700.00	$ 2,863,700.00	$ 2,863,700.00	$ 2,863,700.00	$ 2,863,700.00
Other Intangibles, net	$ 705,500.00	$ 648,110.88	$ 597,433.63	$ 552,683.26	$ 513,166.60
Other Assets	$ 400,900.00	$ 400,900.00	$ 400,900.00	$ 400,900.00	$ 400,900.00
Total Non-Current Assets	**$ 10,449,966.05**	**$ 10,580,606.74**	**$ 10,714,517.37**	**$ 10,854,932.66**	**$ 11,004,050.11**
Total Assets	**$ 13,688,566.05**	**$ 14,091,368.39**	**$ 14,495,263.35**	**$ 14,887,515.61**	**$ 15,248,466.29**
LIABILITIES					
Current Liabilities:					
Accounts payable	$ 924,200.00	$ 953,255.77	$ 959,635.41	$ 965,722.16	$ 971,390.22
Accrued expenses	$ 891,600.00	$ 974,062.36	$ 1,008,893.27	$ 1,044,586.50	$ 1,081,346.61
Deferred revenue	$ 65,300.00	$ -	$ -	$ -	$ -
Short-term borrowings	$ 12,800.00	$ -	$ -	$ -	$ -
Current portion of long-term debt	$ 50,100.00	$ 41,300.00	$ 61,900.00	$ 103,200.00	$ 223,800.00
Total Current Liabilities	**$ 1,944,000.00**	**$ 1,968,618.13**	**$ 2,030,428.68**	**$ 2,113,508.65**	**$ 2,276,536.82**
Non current Liabilities:					
Long-Term Debt	$ 2,769,300.00	$ 2,728,000.00	$ 2,666,100.00	$ 2,562,900.00	$ 2,339,100.00
Long-Term Portion of Operating Lease Liabilities	$ 1,824,866.05	$ 1,919,759.09	$ 2,019,586.56	$ 2,124,605.06	$ 2,235,084.53
Other Liabilities	$ 1,322,400.00	$ 1,322,400.00	$ 1,322,400.00	$ 1,322,400.00	$ 1,322,400.00
Redeemable Non-Controlling Interest	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00
Total Non-Current Liabilities	**$ 5,916,766.05**	**$ 5,970,359.09**	**$ 6,008,286.56**	**$ 6,010,105.06**	**$ 5,896,784.53**
Total Liabilities	**$ 7,860,766.05**	**$ 7,938,977.21**	**$ 8,038,715.24**	**$ 8,123,613.72**	**$ 8,173,321.35**
STOCKHOLDERS' EQUITY					
Preferred stock	$ -	$ -	$ -	$ -	$ -
Common stock	$ 85,400.00	$ 85,400.00	$ 85,400.00	$ 85,400.00	$ 85,400.00
Additional paid in capital – common stock	$ 3,017,300.00	$ 3,017,300.00	$ 3,017,300.00	$ 3,017,300.00	$ 3,017,300.00
Retained earnings	$ 4,350,100.00	$ 5,014,706.70	$ 5,637,473.89	$ 6,266,786.69	$ 6,904,062.83
Accumulated other comprehensive Income/loss	$ (507,900.00)	$ (507,900.00)	$ (507,900.00)	$ (507,900.00)	$ (507,900.00)
Treasury Stock	$ (1,117,100.00)	$ (1,457,115.52)	$ (1,775,725.78)	$ (2,097,684.79)	$ (2,423,717.89)
Total Stockholders' Equity	**$ 5,827,800.00**	**$ 6,152,391.18**	**$ 6,456,548.11**	**$ 6,763,901.89**	**$ 7,075,144.94**
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity	**$ 13,688,566.05**	**$ 14,091,368.39**	**$ 14,495,263.35**	**$ 14,887,515.61**	**$ 15,248,466.29**

Appendix 2: Balance Sheet Common Size

Years	2018	2019F	2020F	2021F	2022F
ASSETS					
Current Assets:					
Cash and cash equivalents	3.30%	5.15%	6.55%	7.75%	8.64%
Trade receivables	5.68%	5.50%	5.29%	5.09%	4.90%
Other receivables	0.19%	0.24%	0.24%	0.24%	0.24%
Inventories, net	12.66%	12.16%	12.16%	12.17%	12.22%
Prepaid expenses	1.23%	1.28%	1.28%	1.29%	1.29%
Other	0.60%	0.58%	0.56%	0.55%	0.54%
Total Current Assets	**23.66%**	**24.91%**	**26.08%**	**27.09%**	**27.84%**
Non-Current Assets:					
Property, Plant and Equipment, net	7.19%	7.65%	8.02%	8.35%	8.66%
Right-of-use assets	13.33%	13.62%	13.93%	14.27%	14.66%
Goodwill	26.81%	26.05%	25.32%	24.65%	24.07%
Tradenames	20.92%	20.32%	19.76%	19.24%	18.78%
Other Intangibles, net	5.15%	4.60%	4.12%	3.71%	3.37%
Other Assets	2.93%	2.85%	2.77%	2.69%	2.63%
Total Non-Current Assets	**76.34%**	**75.09%**	**73.92%**	**72.91%**	**72.16%**
Total Assets	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
LIABILITIES					
Current Liabilities:					
Accounts payable	6.75%	6.76%	6.62%	6.49%	6.37%
Accrued expenses	6.51%	6.91%	6.96%	7.02%	7.09%
Deferred revenue	0.48%	0.00%	0.00%	0.00%	0.00%
Short-term borrowings	0.09%	0.00%	0.00%	0.00%	0.00%
Current portion of long-term debt	0.37%	0.29%	0.43%	0.69%	1.47%
Total Current Liabilities	**14.20%**	**13.97%**	**14.01%**	**14.20%**	**14.93%**
Non current Liabilities:					
Long-Term Debt	20.23%	19.36%	18.39%	17.22%	15.34%
Other Liabilities	9.66%	9.38%	9.12%	8.88%	8.67%
Redeemable Non-Controlling Interest	0.00%	0.00%	0.00%	0.00%	0.00%
Total Non-Current Liabilities	**43.22%**	**42.37%**	**41.45%**	**40.37%**	**38.67%**
Total Liabilities	**57.43%**	**56.34%**	**55.46%**	**54.57%**	**53.60%**
STOCKHOLDERS' EQUITY					
Preferred stock	0.00%	0.00%	0.00%	0.00%	0.00%
Common stock	0.62%	0.61%	0.59%	0.57%	0.56%
Additional paid in capital – common stock	22.04%	21.41%	20.82%	20.27%	19.79%
Retained earnings	31.78%	35.59%	38.89%	42.09%	45.28%
Accumulated other comprehensive Income/loss	-3.71%	-3.60%	-3.50%	-3.41%	-3.33%
Less	-8.16%	-10.34%	-12.25%	-14.09%	-15.89%
Total Stockholders' Equity	**42.57%**	**43.66%**	**44.54%**	**45.43%**	**46.40%**
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity	100.00%	100.00%	100.00%	100.00%	100.00%

Appendix 3: Income Statement

Years	2018	2019F	2020F	2021F	2022F
Tommy Hilfiger Revenues	$ 4,344,500.00	$ 4,498,347.97	$ 4,658,654.86	$ 4,825,624.60	$ 4,999,646.79
North America	$ 1,669,200.00	$ 1,697,576.40	$ 1,726,435.20	$ 1,755,784.60	$ 1,785,632.94
International	$ 2,675,300.00	$ 2,800,771.57	$ 2,932,219.66	$ 3,069,840.00	$ 3,214,013.86
Calvin Klein Revenues	$ 3,731,200.00	$ 3,851,345.05	$ 3,976,184.10	$ 4,105,997.77	$ 4,239,884.95
North America	$ 1,793,300.00	$ 1,823,786.10	$ 1,854,790.46	$ 1,886,321.90	$ 1,918,389.37
International	$ 1,937,900.00	$ 2,027,558.95	$ 2,121,393.63	$ 2,219,675.87	$ 2,321,495.57
Heritage Brands Revenues	$ 1,581,100.00	$ 1,603,235.40	$ 1,625,680.70	$ 1,648,440.23	$ 1,671,518.39
WholeSale	$ 1,317,400.00	$ 1,335,843.60	$ 1,354,545.41	$ 1,373,509.05	$ 1,392,738.17
Retail	$ 263,700.00	$ 267,391.80	$ 271,135.29	$ 274,931.18	$ 278,780.22
Total Revenues	**$ 9,656,800.00**	**$ 9,952,928.42**	**$ 10,260,519.65**	**$ 10,580,062.60**	**$ 10,911,050.13**
Costs of Goods Sold	$ 4,348,500.00	$ 4,485,211.76	$ 4,623,825.41	$ 4,767,825.02	$ 4,916,982.04
Gross profit	$ 5,308,300.00	$ 5,467,716.67	$ 5,636,694.24	$ 5,812,237.58	$ 5,994,068.09
SG&A Total	$ 4,432,800.00	$ 4,591,164.00	$ 4,755,336.69	$ 4,923,573.82	$ 5,096,839.63
SG&A	$ 3,513,600.00	$ 3,692,784.16	$ 3,806,908.16	$ 3,925,466.54	$ 4,048,271.16
Depreciation and Amortization	$ 326,700.00	$ 363,212.57	$ 385,432.56	$ 405,835.51	$ 425,498.58
Leases Rent	$ 592,500.00	$ 535,167.27	$ 562,995.97	$ 592,271.76	$ 623,069.89
Non-service related pension and postretirement cost (income)	$ 5,100.00	$ -	$ -	$ -	$ -
Equity in income of unconsolidated affiliates, net	$ 21,300.00	$ -	$ -	$ -	$ -
EBIT	**$ 891,700.00**	**$ 876,552.67**	**$ 881,357.55**	**$ 888,663.76**	**$ 897,228.46**
Interest expense	$ 120,800.00	$ 78,735.16	$ 76,986.54	$ 75,838.40	$ 74,117.58
Interest income	$ 4,700.00	$ -	$ -	$ -	$ -
EBT	**$ 775,600.00**	**$ 797,817.51**	**$ 804,371.01**	**$ 812,825.36**	**$ 823,110.88**
Income tax expense	$ 31,000.00	$ 119,672.63	$ 168,917.91	$ 170,693.33	$ 172,853.29
Net Income	**$ 744,600.00**	**$ 678,144.88**	**$ 635,453.10**	**$ 642,132.04**	**$ 650,257.60**
Less: Net loss attributable to redeemable non-controlling interest	$ (1,800.00)				
Net Income Attributable to PVH Corp.	**$ 746,400.00**	**$ 678,144.88**	**$ 635,453.10**	**$ 642,132.04**	**$ 650,257.60**

Appendix 4:Income Statement Common Size

Years	2018	2019F	2020F	2021F	2022F
Tommy Hilfiger Revenues	44.99%	45.20%	45.40%	45.61%	45.82%
North America	17.29%	17.06%	16.83%	16.60%	16.37%
International	27.70%	28.14%	28.58%	29.02%	29.46%
Calvin Klein Revenues	38.64%	38.70%	38.75%	38.81%	38.86%
North America	18.57%	18.32%	18.08%	17.83%	17.58%
International	20.07%	20.37%	20.68%	20.98%	21.28%
Heritage Brands Revenues	16.37%	16.11%	15.84%	15.58%	15.32%
WholeSale	13.64%	13.42%	13.20%	12.98%	12.76%
Retail	2.73%	2.69%	2.64%	2.60%	2.56%
Total Revenue	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Cost of goods sold	45.03%	45.06%	45.06%	45.06%	45.06%
Gross profit	**54.97%**	**54.94%**	**54.94%**	**54.94%**	**54.94%**
SG&A Total	45.90%	46.13%	46.35%	46.54%	46.71%
SG&A	36.38%	37.10%	37.10%	37.10%	37.10%
Depreciation and Amortization	3.38%	3.65%	3.76%	3.84%	3.90%
Leases Rent	6.14%	5.38%	5.49%	5.60%	5.71%
Non-service related pension and postretirement cost (income)	0.05%	0.00%	0.00%	0.00%	0.00%
Equity in income of unconsolidated affiliates, net	0.22%	0.00%	0.00%	0.00%	0.00%
EBIT	**9.23%**	**8.81%**	**8.59%**	**8.40%**	**8.22%**
Interest expense	1.25%	0.79%	0.75%	0.72%	0.68%
Interest income	0.05%	0.00%	0.00%	0.00%	0.00%
EBT	**8.03%**	**8.02%**	**7.84%**	**7.68%**	**7.54%**
Income tax expense	0.32%	1.20%	1.65%	1.61%	1.58%
Net Income	**7.71%**	**6.81%**	**6.19%**	**6.07%**	**5.96%**
Less: Net loss attributable to redeemable non-controlling interest	-0.02%	0.00%	0.00%	0.00%	0.00%
Net Income Attributable to PVH Corp.	**7.73%**	**6.81%**	**6.19%**	**6.07%**	**5.96%**

Appendix 5:Cash Flow Statement

Year	2018	2019F	2020F	2021F	2022F
OPERATING ACTIVITIES					
Net Income	$ 746,400.00	$ 678,144.88	$ 635,453.10	$ 642,132.04	$ 650,257.60
Depreciation & Amortization	$ 334,800.00	$ 363,212.57	$ 385,432.56	$ 405,835.51	$ 425,498.58
Non-Cash Items	$ 2,700.00	$ -	$ -	$ -	$ -
Change in NWC	$ (231,400.00)	$ 48,200.28	$ (5,404.65)	$ (5,810.13)	$ (5,878.02)
Cash from Operating Activities	**$ 852,500.00**	**$ 1,089,557.73**	**$ 1,015,481.01**	**$ 1,042,157.42**	**$ 1,069,878.15**
INVESTING ACTIVITIES					
CAPEX	$ (395,400.00)	$ (398,960.22)	$ (419,515.72)	$ (441,232.30)	$ (464,136.56)
Cash from Investing Activities	**$ (395,400.00)**	**$ (398,960.22)**	**$ (419,515.72)**	**$ (441,232.30)**	**$ (464,136.56)**
FINANCING ACTIVITIES					
Dividends Paid	$ (11,600.00)	$ (13,538.18)	$ (12,685.90)	$ (12,819.24)	$ (12,981.45)
Cash From (Repayment) Debt	$ (162,100.00)	$ (62,900.00)	$ (41,300.00)	$ (61,900.00)	$ (103,200.00)
Cash From (Repay) ST Debt	$ (6,700.00)	$ (12,800.00)	$ -	$ -	$ -
Cash From LT Debt	$ -	$ -	$ -	$ -	$ -
Repayments of LT Debt	$ (155,400.00)	$ (50,100.00)	$ (41,300.00)	$ (61,900.00)	$ (103,200.00)
Cash (Repurchase) of Equity	$ (304,800.00)	$ (340,015.52)	$ (318,610.26)	$ (321,959.02)	$ (326,033.10)
Increase in Capital Stock	$ 20,400.00	$ -	$ -	$ -	$ -
Decrease in Capital Stock	$ (325,200.00)	$ (340,015.52)	$ (318,610.26)	$ (321,959.02)	$ (326,033.10)
Cash from Financing Activities	**$ (478,500.00)**	**$ (416,453.70)**	**$ (372,596.16)**	**$ (396,678.26)**	**$ (442,214.55)**
Effect of exchange rate changes on cash and cash equivalents	$ (20,500.00)	$ -	$ -	$ -	$ -
(Decrease) increase in cash and cash equivalents	**$ (41,900.00)**	**$ 274,143.81**	**$ 223,369.13**	**$ 204,246.87**	**$ 163,527.04**
Cash and cash equivalents at beginning of year	**$ 493,900.00**	**$ 452,000.00**	**$ 726,143.81**	**$ 949,512.93**	**$ 1,153,759.80**
Cash and cash equivalents at end of year	**$ 452,000.00**	**$ 726,143.81**	**$ 949,512.93**	**$ 1,153,759.80**	**$ 1,317,286.84**

Appendix 6: Ratios

Years	2016	2017	2018	2019F	2020F	2021F	2022F
Liquidity Ratios:							
Current Ratio (x)	1.84	1.62	1.67	1.78	1.86	1.91	1.86
Quick Ratio (x)	0.86	0.62	0.63	0.76	0.85	0.90	0.91
Cash Ratio (x)	0.47	0.26	0.23	0.37	0.47	0.55	0.58
Efficiency Ratios							
Total Assets Turnover (x)	0.64	0.66	0.70	0.72	0.72	0.72	0.72
Accounts Receivables Turnover (x)	12.89	13.99	13.45	12.82	13.31	13.88	14.50
Collection Period (days)	28.33	26.09	27.14	28.47	27.43	26.30	25.18
Inventory Turnover (x)	2.90	2.76	2.62	2.62	2.62	2.63	2.64
Days in Inventory (days)	125.71	132.06	139.49	139.49	139.10	138.71	138.32
Payables Turnover (x)	5.81	5.46	4.95	4.69	4.87	4.99	5.11
Payables Period (days)	65.00	80.78	77.57	77.57	75.75	73.93	72.11
Cash Cycle (days)	73.60	65.27	75.36	74.74	76.66	78.66	80.71
Profitability Ratios:							
Gross Profit Margin (%)	53.28%	54.90%	54.97%	54.94%	54.94%	54.94%	54.94%
EBITDA Margin (%)	19.65%	16.89%	18.75%	17.83%	17.83%	17.83%	17.83%
EBIT Margin (%)	9.62%	7.09%	9.23%	8.81%	8.59%	8.40%	8.22%
Net Profit Margin (%)	6.69%	6.01%	7.71%	6.81%	6.19%	6.07%	5.96%
ROA (%)	4.20%	3.83%	5.45%	4.81%	4.38%	4.31%	4.26%
ROCE (%)	6.86%	5.20%	7.59%	7.23%	7.07%	6.96%	6.92%
ROE (%)	11.43%	9.71%	12.81%	11.02%	9.84%	9.49%	9.19%
EPS (x)	7.33	7.18	9.96	9.05	8.48	8.57	8.68
SG&A/Sale (%)	44.84%	47.62%	45.90%	46.13%	46.35%	46.54%	46.71%
Solvency Ratios:							
Long- and short-term Debt Ratio (%)	0.63	0.61	0.57	0.56	0.55	0.55	0.54
Long-term Debt Ratio (%)	0.51	0.47	0.43	0.42	0.41	0.40	0.39
Debt to Equity Ratio (x)	1.72	1.54	1.35	1.29	1.25	1.20	1.16
Net Debt to Equity Ratio (x)	1.57	1.45	1.27	1.17	1.10	1.03	0.97
Equity Multiplier (x)	2.72	2.54	2.35	2.29	2.25	2.20	2.16
Net Debt to EBITDA (x)	4.68	5.32	4.09	4.06	3.87	3.69	3.52
Interest Coverage Ratio (x)	6.53	4.92	7.38	11.13	11.45	11.72	12.11
Value Creation and Cash Flow Ratios:							
Cash to Income	1.21	1.02	0.96	1.24	1.15	1.17	1.19
Earnings Quality	1.74	1.20	1.14	1.61	1.60	1.62	1.65

Appendix 7: Balance Sheet Assumptions

	2018	2019F	2020F	2021F	2022F	Assumptions
Current Assets						
Trade Receivables DSO	29.4	28.42	27.28	26.15	25.01	Slowly converge to the average industry values.
Other Receivables DSO	0.98	1.24	1.24	1.24	1.24	Constant over the years and equal to the last 4y average.
Inventory Turnover	2.617	2.617	2.624	2.631	2.639	Slowly converge to the average industry values.
Prepaid expenses as % of COGS	3.90%	4.01%	4.01%	4.01%	4.01%	Constant and equal to the last 3 years average.
Other	$81,700	$81,700	$81,700	$81,700	$81,700	Remain Constant
Non-Current Assets						
Right-of-use assets CAGR	-15.30%	5.20%	5.20%	5.20%	5.20%	Constant over the year and equal to the last 4y average
Goodwill	$3,670,500	$3,670,500	$3,670,500	$3,670,500	$3,670,500	Remain Constant
Tradenames	$2,863,700	$2,863,700	$2,863,700	$2,863,700	$2,863,700	Remain Constant
Other Intangibles Non-subject to Amortization	$214,800	$214,800	$214,800	$214,800	$214,800	Remain Constant
Other Assets	$400,900	$400,900	$400,900	$400,900	$400,900	Remain Constant
Current Liabilities						
Accounts Payable DPO	77.57	77.57	75.75	73.93	72.11	Slowly converge to the average industry values.
Accrued expenses % SG&A	20.11%	21.22%	21.22%	21.22%	21.22%	Constant over the years and equal to the last 4y average.
Deferred revenue as % Total Assets	0.48%	0%	0%	0%	0%	Deferred revenue as % Total Assets represent less than 0,5% of revenue and so are irrelevant.
Non-Current Liabilities						
Long Term Debt Payments Due by Period	-	$50,100	$41,300	$61,900	$103,200	Company Data
Other Liabilities	$1,322,400	$1,322,400	$1,322,400	$1,322,400	$1,322,400	Remain Constant
Redeemable Non-Controlling Interest	$200	$200	$200	$200	$200	Remain Constant
Stockholders' Equity:						
Preferred stock	-	-	-	-	-	Remain Constant
Common stock	$85,400	$85,400	$85,400	$85,400	$85,400	Remain Constant
Stock Based Compensation % Sales	0.60%	0.50%	0.50%	0.50%	0.50%	Constant over the years and equal to the last 4y average.
Additional paid in capital – common stock	$3,017,300	$3,017,300	$3,017,300	$3,017,300	$3,017,300	Remain Constant
Dividend Payout Ratio	1.55%	2%	2%	2%	2%	Constant over the years and equal to the last 3y average.
Accumulated other comprehensive Income/loss	-$507,900.00	-$507,900.00	-$507,900.00	-$507,900.00	-$507,900.00	Remain Constant
Aquisition of Treasury Stock % net income	43.60%	50.10%	50.10%	50.10%	50.10%	Constant over the years and equal to the last 3y average.

Appendix 8: Income Statement Assumptions

	2018	2019F	2020F	2021F	2022F	Assumptions
Tommy Hilfiger Revenue CAGR						
North America CAGR	6.47%	1.70%	1.70%	1.70%	1.70%	Future Regional Demand & Historical performance
International CAGR	15.05%	4.69%	4.69%	4.69%	4.70%	Future Regional Demand & Historical performance
Calvin Klein Revenue CAGR						
North America CAGR	5.01%	1.70%	1.70%	1.70%	1.70%	Future Regional Demand & Historical performance
International CAGR	10.50%	4.63%	4.63%	4.63%	4.59%	Future Regional Demand & Historical performance
Heritage Brands Revenue CAGR	1.35%	1.40%	1.40%	1.40%	1.40%	Future Regional Demand & Historical performance
Cost of goods sold % sales	45.03%	45.06%	45.06%	45.06%	45.06%	Constant over the years and equal to the last 2y average
SG&A as % sales	36.38%	37.10%	37.10%	37.10%	37.10%	Constant over the years and equal to the last 2y average
Interest Expense Rate	2.91%	2.78%	2.78%	2.78%	2.78%	Constant over the years and equal to the last 3y average
Income Tax Rate	4%	15%	21%	21%	21%	U.S. Tax Legislation

Appendix 9: Capex and D&A Assumptions

CAPEX	2018	2019F	2020F	2021F	2022F	Assumptions
Capital Expenditures of Intangibles	-	-	-	-	-	
Capital Expenditure of PPE	$379.50	$398,960	$419.52	$441.23	$464.14	
Capital Expenditure of PPE % sales	3.93%	4.01%	4.09%	4.17%	4.25%	Increases 2% YoY

D&A	2018	2019F	2020F	2021F	2022F	Assumptions
Amortization of Intangible assets	$62.80	$57.39	$50.68	$44.75	$39.52	
Amortization Rate	10.80%	11.70%	11.70%	11.70%	11.70%	Constant over the years and equal to the last 3y average
Depreciation of PPE	$263.90	$305.82	$334.76	$361.09	$385.98	
Depreciation Rate	29.30%	31.10%	31.10%	31.10%	31.10%	Constant over the years and equal to the last 3y average
Total D&A	$326.70	$363.21	$385.43	$405.84	$425.50	

Appendix 10: WACC Assumptions

Variables	Value	Assumption
Risk-free Rate	2.80%	Average U.S treasury 30y Bond 5 years of monthly data Source: yahoo finance
Levered Beta	1.05	Regression PVH vs S&P 500 5 years daily data Source: investing.com
Market Risk-Premium	5.75%	KPMJ
Debt Spread	3%	Moody's Rating Ba1 (2019)
Tax Rate	21%	U.S. Tax Legislation

Appendix 11: WACC Computations

WACC						
Years	2018	2019	2020	2021	2022	Terminal
Risk-Free Rate	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%
Beta Levered	1.05	1.05	1.05	1.05	1.05	1.05
Market Risk Premium	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Cost of Equity	8.85%	8.85%	8.85%	8.85%	8.85%	8.85%
Cost of Debt	5.80%	5.80%	5.80%	5.80%	5.80%	5.80%
Marginal Tax Rate	4%	15%	21%	21%	21%	21%
After-Tax Cost of Debt	5.57%	4.93%	4.58%	4.58%	4.58%	4.58%
Weight of Debt	57.43%	56.34%	55.46%	54.57%	53.60%	55.48%
Weight of Equity	42.57%	43.66%	44.54%	45.43%	46.40%	44.52%
WACC	6.97%	6.64%	6.48%	6.52%	6.56%	6.48%

Appendix 12: Terminal Growth Rate

Years	2017	2018	2019F	2020F	2021F	2022F	Average	Mediana
Capex PPE	$358,100.00	$379,500.00	$398,960.22	$419,515.72	$441,232.30	$464,136.56	$410,240.80	$409,237.97
Capex Right-of-use assets	$611,444.94	$181,943.07	$545,014.98	$573,355.76	$603,170.26	$634,535.11	$524,910.69	$588,263.01
Depreciation PPE	$252,200.00	$263,900.00	$305,823.45	$334,755.31	$361,085.14	$385,981.92	$317,290.97	$320,289.38
Depreciation Intangibles	$65,000.00	$62,800.00	$57,389.12	$50,677.26	$44,750.37	$39,516.65	$53,355.57	$54,033.19
Depreciation of Right-of-use assets	$460,952.04	$511,658.43	$450,121.95	$473,528.29	$498,151.76	$524,055.65	$486,411.35	$485,840.02
∆NWC	$81,000.00	$220,700.00	-$48,200.28	$5,404.65	$5,810.13	$5,878.02	$45,098.75	$5,844.08
EBIT(1-t)	$664,503.41	$856,059.59	$745,069.77	$696,272.46	$702,044.37	$708,810.49	$728,793.35	$705,427.43
Reinvestment Rate	$0.41	-$0.07	$0.11	$0.20	$0.21	$0.22	$0.17	$0.20
ROA	$0.04	$0.05	$0.05	$0.04	$0.04	$0.04	$0.05	$0.04
Leverage	$2.62	$2.44	$2.32	$2.27	$2.22	$2.18	$2.34	$2.29
ROE	$0.10	$0.13	$0.11	$0.10	$0.10	$0.09	$0.11	$0.10
Growth Rate	$0.04	-$0.01	$0.01	$0.02	$0.02	$0.02	$0.02	$0.02

Appendix 13: DCF Computations

DCF					
Years	2019	2020	2021	2022	Terminal Period
EBIT	$961,597.99	$970,825.23	$982,783.77	$996,242.71	$996,242.71
NOPLAT	$817,358.29	$766,951.93	$776,399.18	$787,031.74	$787,031.74
D&A	$813,334.52	$858,960.85	$903,987.27	$949,554.23	$949,554.23
Operational CF	$1,630,692.81	$1,625,912.78	$1,680,386.44	$1,736,585.96	$1,736,585.96
-∆NWC	$48,200.28	-$5,404.65	-$5,810.13	-$5,878.02	-$5,878.02
-CapEx	-$943,975.20	-$992,871.48	-$1,044,402.56	-$1,098,671.67	-$1,098,671.67
FCFF	$734,917.89	$627,636.65	$630,173.76	$632,036.27	$632,036.27
Terminal Value					$13,751,830.48
PV	$734,917.89	$589,417.24	$555,366.05	$522,295.87	$10,696,284.29

Enterprise Value	
Terminal Growth Rate	1.80%
Perpetuity WACC	6.50%
Terminal Value	$13,751,830.48
PV of Terminal Value	$10,696,284.29
PV of FCFF	$2,401,997.06
Enterprise Value	$13,098,281.34

Price Target	
Enterprise Value	$13,098,281.34
Net Debt	$5,285,315.28
Value of Equity	$7,812,966.06
Nº of Shares Outstanding	74910
Price on 31th Dec. 2019	$104.30
Current	87.72
Downside Potencial	18.90%

Appendix 14: PEERS Selection

Name	Industry	2018 Revenues	Market Cap (in millions)	Reporting	Enterprise Value	D/E	Region	Peer
LMVH	Apparel, Accessories and Luxury Goods	$46,800.00	$175,690.00	IFRS	$195,730.00	72.5	Worldwide	no
The Gap, Inc	Apparel Retail	$16,580.00	$6,460.00	U.S. GAAP	$12,750.00	216.25	Worldwide	yes
V.F. Corporation	Apparel, Accessories and Luxury Goods	$13,848.00	$35,350.00	U.S. GAAP	$38,030.00	85.99	Worldwide	no
Estée Lauder	Personal Products	$13,683.00	$70,380.00	U.S. GAAP	$70,920.00	77.35	Worldwide	no
Kering	Apparel, Accessories and Luxury Goods	$13,665.00	$54,630.00	IFRS	$60,920.00	89.53	Worldwide	no
PVH	Apparel, Accessories and Luxury Goods	$9,657.00	$6,150.00	U.S. GAAP	$10,580.00	82.96	Worldwide	
Hanesbrands Inc	Apparel, Accessories and Luxury Goods	$6,804.00	$5,460.00	U.S. GAAP	$9,720.00	399.94	Worldwide	no
Ralph Lauren Corp.	Apparel, Accessories and Luxury Goods	$6,182.00	$6,950.00	U.S. GAAP	$7,660.00	89.07	Worldwide	yes
Tapestry, Inc.	Apparel, Accessories and Luxury Goods	$5,880.00	$7,130.00	U.S. GAAP	$7,470.00	45.62	Worldwide	yes
Levi Strauss & Co.	Apparel, Accessories and Luxury Goods	$5,575.00	$7,490.00	U.S. GAAP	$7,660.00	77.4	Worldwide	yes
Capri Holdings Limited	Apparel, Accessories and Luxury Goods	$4,719.00	$4,400.00	U.S. GAAP	$8,900.00	196.26	Worldwide	yes
Burberry Group plc	Apparel, Accessories and Luxury Goods	$3,836.00	$8,936.00	IFRS	$8,060.00	2.55	Worldwide	no
Hugo Boss	Apparel, Accessories and Luxury Goods	$2,796.00	$3,230.00	IFRS	$4,400.00	138.56	Worldwide	yes
GILDAN ACTIVEWEAR INC	Apparel, Accessories and Luxury Goods	$2,908.00	$7,090.00	U.S. GAAP	$8,110.00	58.07	Worldwide	yes
G-III APPAREL GROUP LTD	Apparel, Accessories and Luxury Goods	$3,076.00	$1,180.00	U.S. GAAP	$2,050.00	77.13	U.S. and Canada	no

Appendix 15: Corporate Governance

The **Code of Business Conduct and Ethics** covers a wide range of business practices and procedures, as: compliance with laws, rules, regulations and company policies; conflicts of interest; insider trading; confidentiality; corporate opportunities; competition and fair dealing; anti-bribery; discrimination and harassment; health and safety; protection and proper use of company assets; record-keeping; waivers of the code of business conduct and ethics; reporting any illegal or unethical behavior and enforcement.

The **Code of Ethics for the CEO and Senior Financial Executives**

1. The Chief Executive Officer(CEO) and the Senior Financial Officers (SFO) are responsible for full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the company with the Securities and Exchange Commission.
2. The CEO and each SFO shall report to the Disclosure Committee, any information he or she may have concerning significant deficiencies in the design or operation of internal controls which could adversely affect the company's ability to record, process, summarize and report financial data or any fraud, whether or not material, that involves management or other employees who have a significant role in the company's financial reporting, disclosures or internal controls.
3. The CEO and each SFO shall promptly report to the General Counsel or the CEO and to the Audit Committee any information he or she may have concerning any violation of the **Company's Code of Business Conduct and Ethics**.
4. The CEO and each SFO shall comply with, and promptly report to the General Counsel or the CEO and to the Audit Committee any information he or she may have concerning evidence of a material violation of, the securities or other laws, rules or regulations applicable to the company and the operation of its business, by the company or any other agent, or of violation of this **Code of Ethics**.
5. The Board of Directors shall determine, or designate appropriate persons to determine, appropriate actions to be taken to prevent, or in the event of, violations of the Company's **Code of Business Conduct and Ethics or of the Code of Ethics by the CEO and the SFO**.

The **Corporate Governance Guidelines** promotes better understanding of the company's policies and procedures as it relates to the role of its Board.

1. Director Qualifications: The Company's Board of Directors will have a majority of directors who meet the criteria for independence required by the New York Stock Exchange. The **Nominating, Governance & Management Development Committee** is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics of any new Board members, as well as the composition of the Board as a whole. This assessment will include members' qualification as independent, as well as consideration of diversity, age, skills and experience, in the context of the needs of the Board and its committees.
2. Director Responsibilities: exercise their reasonable business judgment on behalf of the Company with honesty and integrity.
3. Board Committees: the Board will always have an **Audit & Risk Management Committee**, a **Compensation Committee**, a **Nominating, Governance & Management Development Committee** and a **Corporate Responsibility Committee**. All of the members of these committees will be independent directors, and each committee will have its own charter.

4. Director Access to Officers and Employees: Directors will have full and free access to the Chief Executive Officer (principal executive officer), the Chief Operating & Financial Officer (principal financial officer) and the other officers and employees of the Company.
5. Director Compensation: The form and amount of director compensation will be determined by the Board on the recommendation of the Nominating, Governance & Management Development Committee in accordance with the policies and principles set forth in the Committee's charter.
6. Director Orientation and Continuing Education: All new non-management directors must participate in an orientation program.
7. Management Evaluation and Succession: he Board of Directors must conduct regular evaluations of the Chief Executive Officer and the Company's other executive officers. The Board must regularly assess management's performance in order to ensure that management is providing the best leadership for the Company in the long- and short-term.
8. The Board is responsible for planning for succession with respect to the position of Chief Executive Officer (principal executive officer) and monitoring management's succession planning for other key executives.
9. Annual Performance Evaluation: The Board of Directors must conduct an annual self-evaluation to determine whether it and its committees are functioning effectively.
10. Stock Ownership Guidelines: The company's CEO, other executive officers and directors are required to own common stock of the company with a value equal to a pre-determined number times his or her annual base salary.

The **Audit & Risk Management Committee** duty is to oversight the quality and integrity of the company's financial reports, monitoring the company's financial reporting process and internal audit function, monitoring the independent public accounting firm's qualifications, independence and performance, reviewing and assessing the company's significant business and financial risks and processes to manage the same and compliance with legal and regulatory requirements. The **Committee** will also have such additional functions as are required by the New York Stock Exchange, the SEC and federal securities law.

The **Audit & Risk Management Committee** of the company's Board of Directors, composed solely of directors who are independent in accordance with New York Stock Exchange listing standards, the Securities Exchange Act of 1934.
The Audit & Risk Management Committee is directly responsible for the appointment, compensation, and oversight of the work of the outside auditing firm. In addition, the Audit & Risk Management Committee helps the Board fulfill its oversight functions relating to the quality and integrity of our financial reports by:

- monitoring our financial reporting process and internal audit function;
- monitoring the outside auditing firm's qualifications, independence, and performance; and
- performing such other activities consistent with its charter and our By-laws as the Committee or the Board deems appropriate.

The Board has determined that all members of the Audit & Risk Management Committee are independent for purposes of audit committee service under NYSE listing standards and SEC rules, and each also qualifies as an "audit committee financial expert," as defined in SEC rules.

The **Compensation Committee** duty is to provide assistance to the Board's responsibilities relating to compensation of the CEO and all of the Company's "officers" as defined in Rule 16a-l(f) promulgated under the Securities Exchange Act of 1934. It also has overall responsibility for approving or recommending to the Board approval of and/or evaluating all compensation plans, policies and programs of the company and is responsible for producing the annual report on executive compensation required to be included in the company's proxy statement for each annual meeting of stockholders.

The Compensation Committee discharges the Board's responsibilities relating to the compensation of our executive officers. The Compensation Committee also has overall responsibility for evaluating and approving, or recommending to the Board approval of, all of our compensation plans, policies, and programs, and is responsible for preparing the Compensation Committee Report that appears in this Proxy Statement. The Compensation Committee is authorized to delegate limited authority to enable the Chief Executive Officer to make equity awards subject to parameters the Committee establishes.

Our Chief Executive Officer; Chief Human Resources Officer; Senior Vice President, Global Compensation, Benefits and HR Systems; and General Counsel regularly attend and participate in Compensation Committee meetings, as do representatives of ClearBridge Compensation Group, the Committee's independent compensation consultant since 2009.

The Board has determined that all members of the Compensation Committee satisfy the independence requirements under NYSE listing standards and SEC rules. Each member also qualifies as an "outside" director, as defined under Section 162(m) of the Internal Revenue Code of 1986 (the "Code"), as such section was in effect immediately before it was amended pursuant to the U.S. Tax Cuts and Jobs Act of 2017, and as a "non-employee" director under SEC Rule 16b-3.

There were no interlocks or relationships involving any member of the Compensation Committee during 2018 that are required to be disclosed under the SEC's rules or proxy regulations.

The Nominating & Governance Committee is charged with assisting the Board of Directors (BD) by identifying individuals qualified to become Board members and recommending to the BD nominees for the next annual meeting of stockholders, developing and recommending to the Board **Corporate Governance Guidelines** applicable to the company, overseeing the annual evaluation of the Board and management, recommending to the BD nominees for each committee and overseeing succession planning for the company's CEO, including conducting reviews of talent and succession planning in regard to members of senior management.

The Nominating, Governance & Management Development Committee is charged with:

- identifying individuals qualified to become Board members;
- recommending director nominees to the Board;
- recommending members for each Board committee;
- recommending the Corporate Governance Guidelines relating to Board service;
- conducting Chief Executive Officer succession planning, and monitoring succession planning for senior management;
- monitoring senior management development; and
- overseeing Board evaluations.

The Board has determined that all members of the Nominating, Governance & Management Development Committee satisfy the independence requirements under NYSE listing standards.

The **Corporate Responsibility Committee** duty is to act as an advisory capacity to the BD and management with respect to policies and strategies that affect the company's role as a socially responsible organization.

The Corporate Responsibility Committee is charged with acting in an advisory capacity to the Board and management with respect to policies and strategies that affect PVH's role as a socially responsible organization. The Committee also receives reports on our Inclusion & Diversity program, PVH University, The PVH Foundation (our charitable and philanthropic organization), our business resource groups (affinity groups for working parents, Black associates, members of the LGBTQ community and other communities within PVH), and other ways we advance our core values.

The Board has determined that all members of the Corporate Responsibility Committee are independent under NYSE listing standards; the listing standards do not require committee members to be independent.

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Level of Risk	SELL	REDUCE	HOLD/NEUTRAL	BUY	STRONG BUY
High Risk	0%≤	>0% & ≤10%	>10% & ≤20%	>20% & ≤45%	>45%
Medium Risk	-5%≤	>-5% & ≤5%	>5% & ≤15%	>15% & ≤30%	>30%
Low Risk	-10%≤	>-10% & ≤0%	>0% & ≤10%	>10% & ≤20%	>20%